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ROYAL COMMISSION

ON
TAXATION

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B R I E F

T O

ROYAL COMMISSION ON TAXATION

- - - - -

PREPARED BY

CANADIAN FEDERATION OF PROPERTY OWNERS ASSOCIATIONS,

ONTARIO PROPERTY OWNERS ASSOCIATION,

PROPERTY OWNERS ASSOCIATION OF METROPOLITAN TORONTO,

PRESENTED AT

H E A R I N G S I N

CALGARY, ALBERTA,

August 21st. 1963.

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I N D E X

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INTRODUCTION:

This Brief is tendered by a Joint Committee of the Canadian Federation of Property Owners Associations and the Ontario Property Owners Association along with their affiliate the Property Owners Association of Metropolitan Toronto. The latter is a non-profit incorporated group operating in the sole interest of property owners of all kinds, i.e. industrial, commercial, home and apartment owners, etc. It has been continually active ever since its formation twenty-eight years ago. The Ontario Property Owners Association was formed twenty-six years ago to embrace various local property associations in Ontario cities and towns. The Canadian Federation of Property Owners Associations was incorporated in 1946 to represent both provincial and local associations from coast to coast. Its first task was to carry a Rent De-control Programme into the Supreme Court of Canada, wherein the outmoded war-time controls were abolished.

HISTORY:

Various resolutions, briefs and delegations have been presented to the Government by the Federation over the years. One of the most relevant to the subject herein discussed was an audience granted by the Prime Minister on November 14th 1957 to a delegation headed by Mr. R. M. Willes Chitty, Q.C., on the subject of Redistribution of Tax Fields. Many of the difficulties outlined at that time are still besetting the taxpayer to-day.

One of the most important of these is the competition and overlapping between the Federal and Provincial Governments in to-day's tax field. Although the Federal tax powers in theory are presumably unlimited in practice, it has been understood they were to be restricted to indirect taxation and for non-provincial purposes, so that the provinces (of which the municipalities are a part) will have their normal fields left open. At the time of our 1957 submission it was clear that the "gentlemen's agreement" on such a working basis was breaking down with disastrous results.

At that time (1957) pressure on provincial treasuries had forced a renewed search for fresh tax sources, resulting in an invasion into the field /

HISTORY: (cont'd)

field of indirect taxation. This was accomplished by pure invention, devices that enabled the provinces by ingenuity in the mode of imposition of such taxes to have them assume the form, if not the substance, of direct taxation.

So, with the Federal Government no longer restricting itself to indirect taxes and the provinces creating statutory devices to compete, the taxpayer has been exposed to double and triple taxation on whole lists of items of which gasoline, income and sales taxes are examples.

TAX SYSTEM MUST HAVE SOUND BASE:

Fundamentally no system is sound wherein one level of government collects the revenue and hands part of it to another to disburse. This principle applies even when the governments at various levels have similar political aims; but failure to apply this principle when the various governments involved in the distribution have opposing views on fiscal and welfare matters, etc. could create sufficient friction as to nullify the benefits of Confederation, or even threaten its continuation. At the time of our 1957 submission we were assured that wheels were being set in motion to solve these problems. Dominion-Provincial conferences in the Fall of 1960 finally gave the provinces a better break but the faulty policies and principles still remain. It thus took three years to get partial relief and three years more for the unsound practices to tighten things up worse than ever.

OVERLAPPING PURPOSES:

There is more competition for the taxpayer's dollar and more overlapping and duplication of tax fields than at any time in Canadian history. Not only is the same money taxed twice but in many cases it is extracted by at least two levels of government for the same purpose. The Federal Government has invaded the field of subsidized housing, air and water pollution remedial planning and financing whereas the provincial taxes support trade commissions in foreign countries. The policies of these various commissions are often at variance between one level of government and another so that the taxpayer foots the bill for both levels which, at best, are a duplication and, at worst, may nullify each other's objectives.

OVERLAPPING PURPOSES (cont'd)

So the problem is no longer one of just how to raise taxes or what groups should pay the bulk of various types of them. The real problem is determining what government is entitled to raise taxes for specific purposes and how the voting taxpayer is going to control this. There are strong forces in our midst who thrive on this lack of control, those who desire a spendthrift economy, more inflation, more welfare, etc. and who do not care how it is achieved or who pays. This group do not expect the taxpayer to get either value for his money, nor have a say in the desirability of the objects of the spending.

We cannot have our cake and eat it too. Taxes are such an important part of to-day's economy, influencing so many free enterprise decisions that they must be applied with care and spent on definite objectives. Both the direct objectives and the decisions forced on enterprise must be such as to expand trade, provide employment and prevent waste. Canada can no longer afford the drain of unwise tax collections with its detrimental effect on our world competitive position.

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B R I E F /

B R I E F T O :
ROYAL COMMISSION ON TAXATION - 1963.

A Joint Committee of these Property Owners Associations
with the names of their respective principal officers :

The Canadian Federation of Property Owners Associations -

Mr. Irvine Graham, Calgary, ... Vice-President,

Mr. W. Howard Coulter, B.A.Sc., Toronto, Vice-President,

The Ontario Property Owners Association -

Mr. R.M. Willes Chitty, Q.C., Toronto, President,

Mr. A.K. Kingsmill, Toronto, ... Director,

The Property Owners Association of Metropolitan Toronto -

Mr. C.R. Purcell, A.F.B., Toronto, President,

Mr. A.J. Wilson, Q.C., Toronto, ... Legislation
Chairman,

respectfully submit to the Members of the Royal Commission on Taxation
the following specific fields in which our present tax methods and
laws are either unfair or tend to promote conditions under which
our economy is adversely affected, thus reducing possible future
levels of living standards of all our citizens. In so doing they also
jeopardize fundamental concepts pertaining to the Right of Property
that normally differentiates a democracy from a totalitarian state.
These are as follows :-

1. RESTORE INCENTIVE:

All types of tax that can kill incentive either personal,
corporate, in business or at home, should be eliminated from our tax
structure as a matter of general principle and this should be done
promptly so as to prevent further deterioration in our economy.

2. SUCCESSION DUTIES:

(a) The present Succession Duty Act should be changed so as to insure
that a business established by a Canadian, with Canadian capital
may be maintained by his heirs for generations rather than be
forced to wind up or be taken over by foreign interests.

(b) /

2. Succession Duties (cont'd)

- (b) Combination of succession duties and income taxes now taxes the same money four times for the year previous to death of taxpayer. This occurs at the most difficult time in the affairs of the deceased. The four taxes are Federal and Provincial Death Duties and Federal and Provincial Income Taxes. Although the Income Taxes payable by an estate are deductible from valuations for death duties, the increase in value due to the deceased's last year of earnings is taxed four times although compounding the tax is avoided by the exemption clause mentioned. However, the escalator type tax rates that apply simultaneously to death duties and income tax have a devastating impact on even a moderate estate of a deceased taxpayer with substantial earnings in his final year. Although the Federal Death Duties payable are reduced by allowances for Provincial Duties, they fall far short of covering the duties imposed by the more industrialized provinces. The high end of the escalated scale should be pared down and Federal-Provincial tax fields ironed out. Arrangements should be made for more time to pay death duties, probably by instalments and with due allowance for the income tax that must be paid first.
- (c) Separate taxes on man and wife effectively rob the survivor of a substantial part of a life-time mutual struggle for security in middle life or old age as the case may be. In addition, if the deceased was the owner of a business venture his spouse may have difficulties enough trying to carry it on due to the sudden reduction in family man-power and talent without having the added burden of paying a premature tax which, of course, is always payable in CASH. Added to this is the problem of false valuations dealt with below.
- Whatever a married couple can put by between them should remain untaxed until they both are deceased. It may be conceded, however, that if the survivor remarries a reduced tax be collected on the remnant of the first deceased's estate still unspent. Of course, gifts by Will to other than spouse would be taxed as usual.

(d) /

2. Succession Duties (cont'd)

(d) In many cases to-day the operation of present death duties and income tax laws act as practically straight governmental confiscation of business and property. Those whom death has taken without warning, probably in early middle life, have not had the opportunity nor the knowledge of how to partially safeguard themselves and their endeavours. Unless devices such as incorporation of business or personal affairs, tricky insurance arrangements, Wills direct to second generation, life interest reservations, etc. etc. are resorted to, the operation of the law is in itself quite unfair. The great majority of people have neither the skill nor the foresight to protect themselves in the limited ways available. The payment of duties in CASH on unreal valuations adds to the previous enumerated difficulties. The attendant circumstances with regard to an estate i.e. its liquidity, number and character of its beneficiaries, would have an effect on true market value, as would joint interests etc. Many enterprises operated by an owner-manager or part owner are worth two or three times more with the owner alive than dead. The heirs in such cases have to pay tax on two hundred to three hundred per cent of the actual value received. If a family or a widow is involved this is, as mentioned above, nothing but unadulterated confiscation.

All valuations for duties should reflect cash to the vendor, i.e. the heirs or the estate; valuations at the time of death should be discarded as these are based on the taxpayer having been alive up to that moment. Realistic valuations based on the fact that the taxpayer is now dead should be substituted. In this respect the Government cannot lose since the taxes may not be paid in full for a year or more there is ample time before a final clearance is given to ascertain what actual value the deceased's holdings have been to the successors, if there was misrepresentation. Shares listed on the open market can be valued more fairly than others, but even they are subject to wide variations. Minority holdings in specialty or family businesses may be worthless to other than the original holders whereas majority holdings /

2. Succession Duties (cont'd)

(d) (cont'd) holdings are usually considered more valuable, they often prove so only when there is a battle on for control and may hold a very low value indeed when a skilled owner-manager has passed on. Day to day market values are a very sensitive barometer and those applicable on the day of a shareholder's demise could easily be double or more what the market would bring when a large block of shares have had to be dumped upon it. Of course these variations are common knowledge to taxpayers and government administrators alike, but, despite this knowledge, there has been no evidence until the present Royal Commission was set up that anyone seriously wished to correct these conditions. Death duties have been considered mainly as a source of revenue under a set of rigid rules that determined how much duty was payable without regard for consequences rather than as a means of intelligently handing down the administration of property and business from one generation to the next. The very change of name from Succession to Death Duties and the elimination of preferential rates for next-of-kin further illustrates the new attitude that threatens. It would seem as if the State were determined to destroy all wealth building devices regardless of the fact that under the democratic free enterprise system this is the only way of providing new business activity and more employment for ever-increasing population.

3. CLARIFICATION OF CAPITAL GAIN:

At the present time there is great uncertainty and confusion as to whether the Government will interpret the profits from an individual transaction as being income or as being capital gain. The effect of this is to discourage investment.

Capital gains should be clarified and an early stop put to making net worth assessments serve to illegally tax capital gains.

Canadian tax regulations also treat a great number of items as income that are not income at all. Profit from the sale of property is one example. Assets used for income purposes over many years may finally be sold /

CLARIFICATION OF CAPITAL GAIN (cont'd)

sold, perhaps, by a taxpayer who has passed middle age. The Minister of Taxation may rule the profit as taxable (or the taxpayer may win a court case that only part of the profit is taxable if he is fortunate) as income for the year in which the asset was sold. The asset may have accumulated value over twenty years but becomes suddenly taxable as money earned in one year despite the high tax bracket involved.

In many cases tax on the whole profit may be avoided and the amount limited to the original undepreciated value of the property or asset in place of the actual selling price, but there is no guarantee of this as the Act is very ambiguous and open to various interpretations according to the intent of the taxpayer in making the purchase or sale. At one time it was assumed that stock market and real estate gains were tax-free unless a taxpayer were engaged officially in these businesses as his chief source of livelihood; but recent tax rulings have plainly indicated that "intent" even on a casual one-time deal can attract tax.

Parliament has not made many of these rules, or voiced an opinion on the real change of policy affecting tax collection this last few years. The shift is entirely a matter of whim, for lack of a better expression, may be called "court drift" coupled with too much power in the hands of the Minister of Taxation. One unfair court ruling becomes a precedent for another one, or perhaps it would be more accurate to say that one unfortunate court ruling, due to the existence of an unfair and ambiguous set of laws, becomes the precedent for many more.

When laws are submitted to Parliament they have presumably already been drafted by experts and the members listen to the desired effects as explained by officials and vote accordingly. It is now clear that this procedure does not provide the ordinary citizen and taxpayer with the protection that he should expect to receive in this enlightened age.

.. ILLUSORY VALUES:

In many cases the taxed asset has not increased in real value at all, having actually depreciated but has an 'apparent' increase in value due entirely to inflation over the years. ALTHOUGH THE GOVERNMENT is responsible for most of the conditions permitting the depreciation of the dollar over the years, the taxpayer/

ILLUSORY VALUES (cont'd)

taxpayer receives no allowance for this, but must pay in full, i.e. he must pay the same tax as he would have done had he received real cash income during the year equal to the inflated effect.

The above is equal to Federal confiscation of taxpayers' property and assets through vicious side-effects of present income tax law.

In other cases, such as the sale of older apartment buildings, the sale results in the recapture of depreciation written off over the years and so tax savings over a score of years may be payable suddenly in one year. The sad tale of those caught in this squeeze has spread so far in recent years that very few owners of rental units are now brave enough to take the depreciation allowances they are entitled to.

5. DOUBLE TAXATION:

(a) Mortgaged Homes:

The lack of proper exemptions not only imposes real estate tax and income tax on the same money but produces other unfair results as shown by the following example :-

Mortgage interest anomaly: If "A" owns his home outright and "B" with the same net worth and income purchases a similar home with a substantial mortgage on it, leaving money invested, say, in bonds equal in value to the mortgage, then "B" pays several hundred dollars more income tax than "A" as he cannot cancel the bond interest received against the mortgage interest paid, neither "A" nor "B" can get any exemption for the municipal taxes they both pay.

To encourage home ownership the Government should consider allowing as income exemptions the interest portion of mortgage payments and the municipal taxes paid by homeowners without imposing any retaliatory tax. Many a small business has been started on funds raised by a mortgage on the family home. A generation or two ago the impact of tax considerations was not serious enough to distort business decisions, but this is no longer the case. If a small business man trying to raise funds pledges any other asset for a loan, except his home and its furnishings, he can charge the interest paid against the income from the enterprise so financed, his home is often the largest of /

DOUBLE TAXATION (cont'd)

Mortgage Interest Anomaly (cont'd)

of the assets that he can pledge, but he must carefully avoid it under penalty of double taxation.

The importance of this angle lies in the fact that all big businesses had small beginnings. If the Government creates an atmosphere favourable for the formation and growth of small business, as pointed out by the Canadian Chamber of Commerce over the years, then there would never need to be any worry about big business.

(b) Miscellaneous:

In the United States, for instance, double or multiple taxation cannot take place. A citizen of the U.S.A. can get credit on his income tax for every cent of other taxes paid - on meals, cigarets, municipal taxes, hospital taxes, home mortgage interest, etc. It may involve keeping a lot of stubs, but it is his right to do so if he wishes. Failure to build this principle into Canadian law not only produces unfair results, but permits taxes to exceed one hundred per cent with no recourse open to the taxpayer.

6. HARDSHIP FROM PROGRESSIVE RATES ON INCOME:

(a) Families:

Misleading assumptions may be obtained by a cursory look at Canadian tax forms which give the impression we are getting as good a tax break here as in other industrialized countries when in reality we are not, U.S. families, for example, have separate tax forms for man and wife and may allocate their combined income on them so that neither one has to pay in an unnecessarily high bracket. In Canada, however, if the husband's taxable income were \$12,000 and the wife earned less than \$1,000 and thus untaxed, they would pay \$2,870. If they were permitted, as across the line, to allocate \$6,000 taxable income to each form, the tax would be \$1,050 each or \$2,100 in all, a saving of \$770.

To add insult to injury, the ill-conceived Section 21, subsection (1) so aggressively pursues its "pound of flesh" that if a man gives money or property to his wife (or to a woman who later becomes his wife) then all income derived from the investment or use of said gift shall automatically /

HARDSHIP FROM PROGRESSIVE RATES ON INCOME: (cont'd)

(a) Families (cont'd)

automatically be lumped into the husband's income for tax purposes and for life, denying both exemptions or lower brackets that would ordinarily be deemed available in the wife's tax form. If the original gift were substantial, it would, of course, have also been subject to gift tax as well.

Citizens' rights are jeopardized by such concepts. One family whose parents receive \$12,000 should not pay a different tax than another just because the proportion of the total received by each of the parents happens to differ, or because one man made a gift at some time to his spouse and the other one did not.

Not only does the Canadian concept above mentioned discourage the proper sharing of this world's goods between husband and wife, but it also tends to promote juvenile delinquency through the preferential tax treatment of families where the mother works full time because her tax bracket is less than if the father were to exert himself to earn more instead.

(b) Business:

The previous paragraphs deal mainly with the low and middle range of progressive rates, whereas what follows applies more to the middle and upper brackets. In every society the majority will fall into the lower and middle brackets but the few in the higher brackets are the ones capable of forming the medium and larger businesses of to-morrow. When fifty to eighty per cent of the income earned by this group is syphoned off by ONE TAX alone (income) and with the impact of multiple taxes mentioned in other sections of this brief, it does not make sense in an underdeveloped country like Canada to stifle capital formation in this way. The United States who is much further developed and whose tax laws are not as severe as ours, has, nevertheless, found expansion to be stifled and taken steps accordingly.

7. UNEMPLOYMENT AND LIVING STANDARDS:

Pressure on the Federal Government has been mounting sharply since the campaign preceding last June's elections to give Canadian initiative a chance /

UNEMPLOYMENT AND LIVING STANDARDS: (cont'd)

chance to show what it can do to place Canada back in its rightful place in world trade, to use our education, resources and abilities to increase employment and improve the standard of living of all citizens.

The Canadian income tax structure has been singled out as possibly being the main culprit (but far from the only one) in handicapping our economy. Those who favour the welfare state and the maintenance of our high tax collections have insisted Canada's taxes are no worse than those of the U.K. or the U.S.A., but this opinion is not shared by those who are in business or by those who must pay the bulk of our various taxes. (Please refer to separate section on tax comparisons).

High taxes and high wage levels are practically the only causes of Canada's drop from a keenly competitive position in the markets of the world during the last generation and, to a great extent, the sales tax on consumer goods and the tax on labour's income have generated the steam in the wage-cost spiral. Corporation and personal income taxes are by no means a negligible contributor to the increased overhead of doing business in Canada during recent years. These combined adverse factors spell unemployment and lower living standards for Canadians.

The importance of the general factors above and in previous portions of this brief to the property owner and realty taxpayer lies in the fact that the greatest single threat to profitable or efficient ownership of either productive or non-productive property is unemployment. Unemployed persons cannot earn overhead on the tools of production, extracted and paid for out of scarce local capital due to tax laws handicapping capital formation (dealt with elsewhere). Likewise unemployed cannot meet mortgage payments or pay rentals regularly, and they cannot pay their grocery and clothing bills etc. thus jeopardizing the meeting of payments on other people's property as well as their own. Lastly, they become a burden on other taxpayers instead of themselves being substantial contributors to the general taxation picture.

The high tax levels of to-day automatically affect pecuniary financial matters and are no longer a matter of pure fiscal policy. The day is long past due when we strike a budget and set a tax rate to match it. The Government /

UNEMPLOYMENT AND LIVING STANDARDS: (cont'd)

Government must also make a study, or listen to others who have, of the effect of tax collection on enterprise, profits, employment, competitive world status, incentive, capital formation, etc. Failure to take ALL of these factors into consideration BEFORE budgets and tax rates are set up will only accentuate our present difficulties.

Very vigorous steps should be taken by the Government to see that measures are enacted that reflect the wishes of the people. Just and fair taxes should be implemented that will promote development and help to dissolve the ever growing unemployment that otherwise will persist. These steps should be undertaken with the specific purpose of providing :-

- (a) More investment capital.
- (b) Greater incentives for investment of Canadian generated funds and correspondingly less need of foreign funds.
- (c) Greater incentive to earn more income.

To accomplish the above purposes the Government should give consideration to implementing either -

- (a) a flat rate income tax, or
- (b) a much simplified and greatly reduced progressive rate system if an abrupt change is considered too disturbing.

8. INFLATION:

President Truman once said that a little inflation was a desirable thing. The previous Roosevelt administration believed that quite a bit more than a little was still desirable. The more spendthrift planks there are in a government platform the more lenient will be their views on inflation. Property owners, however, believe in a "pay-as-you-go" policy on taxes and are by nature against inflation for the following reasons:

- (a) Inflation robs the "haves" so that it may be spent by the "have nots". This destroys initiative, reduces employment and discourages or prevents capital formation and use of it.
- (b) Inflation causes wage cost spirals and labour discontent.
- (c) Inflation causes unstable pricing, makes escalator clauses necessary on contracts, including public works contracts, thus encouraging irresponsibility and waste of taxpayers' money.
- (d) Inflation /

INFLATION: (cont'd)

- (d) Inflation causes false values for tax purposes (see Illusory Values, Section 3 under Capital Gain)
- (e) Inflationary policies may be followed more or less with impunity by self-sufficient countries, but with disastrous results by those dependent on world trade for their standards. In this respect we must follow British policy rather than that of the U.S.A.
- (f) Inflation reduces the value of previous years' savings; in an industrial economy this reduces the value of residual amounts available for capital formation. In a country like Canada we need the full cumulative effect of all amounts available for capital formation in order to avoid becoming the financial slaves of foreign countries who have more realistic tax laws on capital, and/or more capital.

9. IRREGULAR INCOMES:

Persons working on commissions, receiving prize money (as their means of livelihood) or in types of business such as show business where large amounts may be received one year and practically nothing the next, undergo great hardships under present tax laws unless they incorporate themselves. Such persons whether incorporated or not should be able to average their incomes over three to five years for income tax purposes. A flat rate scale in place of the present steep progressive income rate scale would help these people to some extent, but, for those who earned considerably below the statutory exemptions in certain years, the averaging method would be fair.

10. WELFARE AND EDUCATION TAXES:

Property owners, through these affiliated associations, have never sought to avoid their full tax responsibilities. When items of no benefit to property are charged against it resulting in means being sought to eliminate such, it is not because owners are not mindful of their general responsibilities as citizens of the country, rather, it is an attempt to make it clear that owners pay as much or more of all the other types of taxes that non-owners pay PLUS those specifically applied to real estate.

At our combined annual meeting last year during the "Symposium of Opinions" two of the participants in this panel discussion programme, the Municipal Affairs Minister of Ontario and the Mayor of Toronto brought out

EDUCATION TAXES: (cont'd)

the point that and education costs were removed from city taxes and borne directly by higher levels, then NO grants for any other purpose would be required in order to maintain present mill rates on property and business. This was a startling point to some present and later had to be confirmed.

Such a simplification would put these costs exactly where they belong and permit no hedging by elected representatives as to which level was responsible for these items in the budget and the manner in which it was spent. Expenditures of school boards and welfare expenditures of councils are property owners biggest headache at the present time.

In the larger urban centres property owners still bear the brunt (75 to 80 per cent) of school board disbursements.

We would submit under this section that home owners be entitled to an additional exemption on income tax forms equal to that portion of property tax paid by them for education and welfare in their communities.

11. CANADA - U.S. COMPARISONS:

(a) Canadians Taxed up to 40 per cent heavier:

As a result of many conditions outlined in this Brief we have lost to foreign control at least seventy per cent of Canadian industry and to foreign ownership nearly sixty per cent. Less than a decade ago both of these figures were less than fifty per cent. Such statistics prove that the fiscal and monetary policies in existence during the last eight or ten years have not only failed to correct such conditions, but have instead been the main causes of them.

For those looking for someone to blame, Canadian initiative, Canadian conservatism, lack of enterprise, lack of stamina against competition etc. have been among the targets. No one wants to face up to reality. Canadian qualities for doing business are as good as any in the world, but they have to be given a chance.

Tax comparisons shown in the December 22nd issue of the Financial Post between U.S. and Canadian citizens owning property indicate that the Canadian pays eight to seventeen per cent more in various tax groups. Adding some of the special risks enumerated in this Brief, which were not allowed /

CANADA - U.S. COMPARISONS: (cont'd)

(a) Canadians taxed up to 40% heavier: (cont'd)

allowed for in the comparisons mentioned, such as full exemptions and lower brackets of spouse not allowable here, fear of claiming depreciation (due to tax on capital recapture), etc, coupled with the fact that the Canadian dollar buys 30% less in consumer goods than its U.S. counterpart, brings us face to face with the unpalatable fact that we are penalized about 40% more, tax-wise, on a living standard base rather than a dollar basis, than our cousins to the South.

Note: Correction to the "living standard base" decreases the effectiveness of various exemptions by 30% and requires the comparison of the progressive tax rates on Canadian incomes that are 100/70 or 43% more than their U.S. counterparts.

(b) Cannot ignore Productivity:

Despite the fact that Canadian productivity per worker remains at only 60% of that pertaining to the United States, both labour and government have tried to pretend otherwise. Since 1959 the wage-productivity curves have remained parallel in the United States. In Canada the productivity curve fell away from the wage curve during 1960 and 1961 and had just returned to its 1959 relationship at the close of 1962. So the Canadian relationship of productivity and wages compared to those in the U.S. are unchanged from 1959 also.

Labour believes the best way to close the gap between living standards here and across the line is to demand parity, or as close to it as possible, in the matter of wages and hours; in steel and other industries they made these demands even when the Canadian dollar was worth 15% more compared to the United States dollar than it is at present. To be consistent perhaps they should ask for 15% more than parity now, or, to compensate for the 30% decrease in the purchasing power of our dollar, they should use this percentage instead?

The Government, on the other hand, has tried to tax us as if our standards /

Canada - U.S. COMPARISONS (cont'd)

(b) Cannot ignore Productivity (cont'd)

standards and productivity were equal to the United States and by means of social and welfare measures seek to compensate from taxes for the shortcomings of our economy.

Both labour and government concepts of enforcing a standard either at the bargaining table or by decree are foolish and futile. The wages and taxes that result from these concepts make our cost of living and cost of production higher than they otherwise would be. And in addition render us non-competitive in world markets, unable to raise capital for expansion or maintenance of our own enterprise so that we must eventually become the financial slaves of foreign controlled business.

These policies do not lead to higher standards for our people, nor support our right of ownership of either productive or non-productive possessions. Enterprise and democracy cannot persist in a financial climate that does not permit private ownership to persist.

Fiscal policies must be based on retention of ownership and the abandoning by the Federal Government, or other levels, of any taxes that are confiscatory.

Taxes are not merely just a means of raising money for the government to spend, nor can a young country like Canada stand comparison with a large and nearly self-sufficient one like the United States or an older one such as Britain. Because wrong comparisons have been made, we find ourselves in a ridiculous situation, i.e. the prices of our consumer goods are a way out of line with income. Fuel, food and clothing should be lower priced in Canada than across the line because our productivity per man is lower. In other countries like Italy and Japan, particularly a few years ago, their lower standards were reflected in lower prices for the essentials of living. But because our industry and labour are both largely under foreign control we are probably the only self-governed country in the world whose lower productivity is not matched with a proportional lower cost economy. Instead of budgeting our money to meet our need, we foolishly strive to keep up with our rich neighbours.

12. 1963 TAX REVISIONS:

Reduction of Sales Tax Exemptions Retrogressive. It is too short notice to comment effectively on Finance Minister Gordon's 1963 Budget, especially as some items are still in a state of clarification as this is being written. In general, however, it appears to be a budget that will increase the cost of living, particularly the cost of new housing. It would also appear that it will increase factory overhead by imposing eleven per cent sales tax on the tools of production, thus reducing our competitive position abroad.

The stimulation of industry, especially secondary industry, is urgently required to provide additional employment. The taxing of tools and equipment, already financed with difficulty is definitely a retrogressive step. The Government instead should have continued to encourage building of all kinds along with investment in increased productive capacity.

The budget would appear to contain the elements of another round on the inflation spiral at a time when we can ill afford it.

The extension of Ministerial powers of discretion is very unfortunate. All laws requiring such discretion should be cancelled and the rights of any Minister to have recourse to such powers should forever be written out of Canadian Law. Arrangement of a taxpayer's affairs for minimum tax impact is his right and should not be viewed as "evasion".

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over . . .

This Brief is respectfully tendered to the Royal Commission on Taxation by the Joint Committee formed for this purpose on behalf of the following affiliated groups :-

The Canadian Federation of Property Owners Associations :-

Mr. Irvine Graham, Calgary,	...	Vice-President
Mr. W. Howard Coulter, B.A.Sc.,	"	"

The Ontario Property Owners Association :-

Mr. R.M. Willes Chitty, Q.C.,	President.
Mr. A.K. Kingsmill	... Director.

The Property Owners Associations of Metropolitan Toronto :-

Mr. C.R. Purcell, A.F.B.,	... President.
Mr. A.J. Wilson, Q.C.,	... Legislation Chairman.

In addition all material compiled into this document has been submitted to, and approved by, the twentyseven man Board of Directors of the Metropolitan Toronto Association.



W. Howard Coulter,
Vice-President,

The Canadian Federation of Property
Owners Associations, and

Secretary of the Joint Committee.

S U M M A R Y.

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1. Responsible action from elected representatives can only occur after we possess clarified tax fields with properly allocated purposes.
2. Canada cannot become "efficient" or competitive in world markets until the voter is restored to the driver's seat with a clear view of the road. This will result in the elected representatives having a clear mandate and a proper conception of what is expected of them.
3. Tax load in proportion to our state of development and need for new capital is one of the most unfavourable among the world's industrial free nations. Those who argue that this is not so do not represent either the views of the taxpayers nor those of responsible industry.
4. Taxing is becoming a fine art, and is no longer a method of raising money for various levels of government to spend. Irresponsible tax policies must be brought to an end. Such policies should, in this modern age, be geared to ability to pay without impoverishment of living standards or production facilities, or a forced sale of assets to foreigners.
5. Unemployment remains the number one threat to the profitable use of either productive or non-productive property, and thus menaces the "Right of Property" or Ownership which is inseparable from the democratic concepts of free men.
6. Employment in a non-communist country depends on a favourable political climate for "capital formation" for both the continued health of existing enterprise and the formation of new business. Legislation of a confiscatory nature not only hinders new capital from being used, but also nullifies the further benefits from capital already raised in the past.
7. All laws should be clear cut and readily understandable. There should be no room for the use of a "Minister's Discretion".
8. /

S U M M A R Y (cont'd)

8. Relief should be given for all double or multiple tax effects and those seeking such relief should not be classed as EVADERS, but viewed as examples of the existence of faulty law which itself must be corrected.

9. Government must vacate activities that provide unfair competition to free enterprise or to beneficial ownership of property or equipment, Any other course is to destroy the forces whereby a democracy can exist, leaving communism as the only alternative.

10. State capital is related to communism. Use of N. H. A. and similar funds ~~are~~ past the point where they fill a need and up to the point where they start to cause interference and losses to private capital are as much a threat to our economy as the take-over of our industry by foreign capital. Either way, precious Canadian-generated capital would be destroyed and the incentive to provide more would be eliminated.

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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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SUBMISSION TO THE ROYAL COMMISSION ON TAXATION

RESPECTING CERTAIN ANOMALIES AND INEQUITIES IN

THE ESTATE TAX ACT



SUBMISSION TO THE ROYAL COMMISSION ON TAXATION
RESPECTING CERTAIN ANOMALIES AND INEQUITIES IN
THE ESTATE TAX ACT

CONCLUSION

The value of all property should, for all purposes of the Estate Tax Act, be the fair market value of such property.

RECOMMENDATION

That Section 58 (1) (s) be repealed and the following substituted therefor:

"VALUE" - "value" in relation to all property included in computing the aggregate net value of the property passing on the death of the deceased means the fair market value of such property computed as of the date of the death of the deceased, or as of such other date as is specified in this Act, without regard to any increase or decrease in such value after that date for any reason.

1. The present basis of valuing the assets of an estate for estate tax purposes is set forth in Section 58 (1)(s) of the Estate Tax Act as:

"VALUE" - "value",

(1) in relation to any income right, annuity, term of years, life or other similar estate or interest in expectancy, means the fair market value thereof ascertained by such



1 means and in accordance with such rules and
2 standards, including standards as to
3 mortality and interest, as are prescribed
4 by the regulations, and

5 (11) in relation to any other property, means the
6 fair market value of such property,

7 computed in each case as of the date of the
8 death of the deceased in respect of whose death
9 such value is relevant or as of such other
10 date as is specified in this Act, without
11 regard to any increase or decrease in such
12 value after that date for any reason."

13 2. Thus, the generally known and accepted concept
14 of fair market value as developed by the Courts is
15 applicable to property of every kind and description
16 except "any income right, annuity, term of years, life
17 or other similar estate or interest in expectancy".
18 These few types of interest are singled out for the very
19 special treatment "prescribed by the regulations".

20 3. The variation between fair market value as
21 determined under the regulations and as determined by
22 the Courts may be seen from the results of the only two
23 recorded Canadian cases in which the values of such
24 interests determined under the regulations were reviewed
25 by the Courts. These cases are:

26 Smith and Rudd v. M.N.R. (1950)C.T.C. 14 and
27 247, involving the value of an income interest;
28 Burns et al, v. M.N.R. (1959)C.T.C. 147, in-
29 volving the value of an interest in expectancy.

30 4. The values, as determined under the regulations



and by the Court in these cases were as follows:

	Smith and Rudd	Burns et al
	<u>v. M.N.R.</u>	<u>v. M.N.R.</u>
Valuation made under the regulations	(1) \$ 213,667	(2) \$ 810,647.28
Valuation made by the Court	(3) \$ 67,230	(4) \$ 486,035.
% of Valuation under the regulations to the fair market value determined by the Court	317%	167%
(1) (1950) C.T.C. at 18	(2) (1959) C.T.C. at 148	
(3) (1950) C.T.C. at 253	(4) (1959) C.T.C. at 257	

5. The effect of such vast differences in valuations is accentuated by the ascending rate of tax levied under the Act to produce even more startling results. Assuming for the sake of simplicity, that the other assets of the two estates considered in the above mentioned cases, were equal to the deductions and exemptions permitted by the Act so that the aggregate taxable value in each case was the same as the value of the interest in dispute, the incidence of estate tax under prevailing rates would be as follows:



	<u>Smith and Rudd</u> <u>v. M.N.R.</u>	<u>Burns et al</u> <u>v. M.N.R.</u>
Estate tax on valuation under regulations	\$ 47,828	\$ 251,759
Estate tax on valuation by the Courts	\$ 11,791	\$ 131,752
% of Estate tax on valuation under the regulations to that of Courts	406%	191%

These calculations are shown on Schedule "A" attached hereto.

6. Thus, it may be seen that property valued under the regulations may be valued at double or treble its actual fair market value and subjected to a tax which is double or quadruple the rate prescribed by the Act for all other types of property.

7. It is respectfully submitted that it was not the intention of Parliament to subject income rights, annuities, terms of years, life or other similar estates or interests in expectancy to such punitive and well-high confiscatory treatment. To conclude otherwise is to nullify the words "fair market value" in Section 58 (1)(s)(i).

8. The question may well be asked "why should there be such a vast difference between fair market value as determined under the regulations and fair market value as determined by the Courts employing principles developed over the years in hundreds of cases involving the valuation of property of every kind and description." These are not only tax cases but expropriation and property damage cases where the same problem arises.



9. The answer lies partly in the provisions of the regulations and the tables prescribed under them and partly in the complete disregard under the regulations of many factors which the market place and the Courts recognize as having a bearing on the fair market value of various types of property.

10. The regulations and tables are attached hereto as Schedule "B". They are the same in all significant respects as the regulations and tables which prevailed under the old Dominion Succession Duty Act from its inception in 1941. The fact that they have remained so long unchanged is probably due to the fact that under the old Act they performed a very limited function, which will be discussed later in this submission. Because of this the defects and deficiencies which now have such a marked effect on valuations and the incidence of tax were then of little practical import.

11. Some of the more glaring defects in the regulations and tables are:

(A) The use of a 4% compound interest rate
throughout all calculations and tables.

12. Under the regulations and Table IV, the Department calculates the present value of a \$100,000.00 future expectancy due 25 years hence as being \$37,512.00. This is the sum of money which, if invested today at 4% compound interest, would aggregate \$100,000.00 in 25 years. Actually, Government of Canada long term securities presently yield approximately 5%. Hence the person deprived of the



use of the \$100,000.00 for the next 25 years would, if he had it, be able to invest in top quality securities yielding at least 5%. No one is his right mind would settle today for a 4% yield. On a 5% compound interest basis the value of \$100,000.00 25 years hence is \$29,530.00. (Tables of Compound Interest by Lieut. Col. W. H. Oakes, A.I.A.)

13. Thus, under the regulations and tables this future expectancy is being overvalued on this factor alone by 27%.

14. Actually, the margin or error is much greater inasmuch as top quality bond yields have fluctuated in the past 15 years from an approximate low of 2-1/2% to an approximate high of 5-1/2%. (Schedule "C" hereto.) Thus, the value of \$100,000 due 25 years from the date of the death of a person dying within the last 15 years, has fluctuated, depending on the rate of interest prevailing at the date of death, as follows:

Present Value of	
<u>Rate of Interest</u>	<u>\$100,000 due in 25 years.</u>
2-1/2%	\$ 53,939.00
3 %	47,761.00
3-1/2%	42,315.00
4 %	37,512.00
4-1/2%	33,273.00
5 %	29,530.00
5-1/2%	26,223.00 *

(*Tables of Compound Interest by Lieut. Col. W.H. Oakes, A.I.A.)

15. Under the regulations and tables it is always \$37,512.00. While it may be argued



that this latter is not an unfair average figure to use over the years, the fact is that when applied to an individual's estate at the date of his death, it is nearly always wrong. He only dies once. That is when his estate is valued and taxed; that is when the ability of his estate to bear the tax assessed is of vital importance to his heirs. Equity demands that it be valued fairly in the light of conditions prevailing at that date and not on conditions prevailing over the fifteen or twenty years prior thereto. Annuity rates vary similarly, Table III notwithstanding.

16.(B) In valuing any income interest under the regulations, the net annual income from any property "shall be deemed to be four percent of the value of that property...."

(Regulation 10 (1) and 10 (3) in Schedule "B".)

17. Thus, where a person dies owning a $\frac{1}{3}$ interest in the income from property having a fair market value of \$1,000,000. (but not owning the property itself, which are the facts in the Rudd and Smith case) under the regulations the property would be deemed to produce a net annual income of 4%, being \$40,000 and the deceased's annual interest therein would be assessed as an annual income of \$13,333.00. The present value of this would then be calculated by the use of the appropriate factor from Table III or IV, as the case may be and his



estate taxed on the resultant value. It would matter not that the property in question had never produced \$40,000.00 in any year or anything approaching that sum, that the deceased has never received \$13,333.00 in any year, and that his beneficiaries were never likely to receive all or any part of that amount. It would be valued just as though it were a Government guaranteed annuity of \$13,333.00 per year backed by all of the resources of that country.

18.(C) The prescribed standard of mortality set forth in Table I and forming, together with the 4% compound interest rate, the basis for ascertaining the present value of life interests or life annuities under Table II is "derived from the 1937 Standard Annuity Mortality Tables as published in Volumes 39 and 40 of the 'Transactions of the Actuarial Society of America' and representing the combined life expectancy of men and women." (C.C.H. Canadian Estate and Gift Tax Reporter at 5812.)

19. All actuarial authorities, including the Dominion Bureau of Statistics, are well aware that:

(a) in Canada the average woman outlives the average man by several years. In 30 to 40 years of age group, her life expectancy is approximately four years more than his. (Population mortality table:



(b) since 1937, when the mortality tables prescribed by the regulations were compiled, there have been many advances in medical science, such as the virtual elimination of poliomyelitis and tuberculosis, the many wonders wrought by the whole field of antibiotics, the combined effort of which has been to render obsolete any mortality tables based on statistics available in 1937. (Examples from various mortality tables are set forth in Schedule "D".)

20. The least semblance of equity would require such tables to be kept current. However, no table can be entirely equitable in any individual case, such as where a life annuity is dependent of the life of an epileptic or on the life of an astronaut.

21. The effect of a few years, say five years, difference in the life expectancy of a person upon whom an income interest depends may be seen from Table III under which the present value of an annuity of \$10,000.00 a year

for 25 years would be valued at \$156,220.80

for 20 years would be valued at \$135,903.30.

22. Despite such glaring inequities in the regulations and tables themselves, these pale into insignificance when compared with the many factors involved in determining the fair market value of a property, which are completely disregarded by the regulations invoked by Section 56 (1)(s)(1). Some of these were mentioned by Thurlow, J. in his reasons for judgment in the Burns



estate case (1959 C.T.C. 147 at 156 and 157) as being:

- (a) the complete disregard of the security underlying a future expectancy. Thus, under the regulations a right to receive 25 years hence, 10% of a property presently valued at \$1,000,000. would be valued exactly the same as the right to receive, 25 years hence, the sum of \$100,000. secured by property now worth \$1,000,000. In other words, no consideration is given to such things as the present nature of the property, whether it be Government of Canada bonds, penny oil stocks or copper rights in Cuba;
- (b) the uncertainty of the date when the assets would become distributable depending as it did in this case of the life of a single person;
- (c) the comparative values of other types of investments which a prudent prospective purchaser would consider before buying such an interest;
- (d) the marketability of such an interest.

23. Other factors not specifically mentioned by Thurlow, J. in the Burns case but set forth in the appraisal by Mr. T.P.N. Jaffray, which was accepted by His Lordship, were:

- (a) the mixed-bag nature of the underlying assets ranging from those of an investment trust to the operation of a cattle



1 ranch;

2 (b) the small possibility of any say by the
3 deceased or his beneficiaries, in the
4 operation of the properties;

5 (c) the investment policy of those in
6 control of the properties and its effect
7 on the prospects of future appreciation
8 of the properties.

9 24. Such factors will no longer be considered. The
10 loopholes, through which the appellants in the Rudd and
11 Smith case and the Burns case found access to the Courts,
12 have been closed by the Estate Tax Act.

13 25. That these loopholes ever existed is due to the
14 fact that the predecessor section to Section 58 (1)(s)(1)
15 and the predecessor regulations and tables now applicable
16 under that section, while very similar in form were
17 intended to serve a very restricted purpose. As
18 amplified in paragraphs 26 to 32 inclusive, the valuation
19 rules prescribed under the Dominion Succession Duty Act
20 were used merely to apportion between beneficiaries the
21 aggregate net value arrived at with reference to such
22 rules.

23 26. The Dominion Succession Duty Act required two
24 valuations. The first was to determine the aggregate
25 net value of an estate. This was done on the basis of
26 fair market value untrammelled by any regulations and
27 tables.

28 27. Having determined the aggregate net value of
29 the estate, it then became necessary to sub-divide that
30 value amount the beneficiaries to arrive at the dutiable



1 values of their respective successions. The total of
2 these successions equalled the aggregate net value of
3 the estate.

4 28. The duty was then levied on the successions
5 at a combination of:

6 (a) an initial rate which depended on the
7 aggregate net value of the estate, and

8 (b) an additional rate which depended upon
9 the value of the individual succession
10 and the degree of kinship of the
11 successor.

12 29. A slightly simplified example of this
13 procedure would be as follows, taking

14 (a) the aggregate net value of the estate to
15 be \$1,000,000;

16 (b) an life interest in the income thereof
17 to the deceased's wife, aged 65 years
18 at the date of death;

19 (c) the remainder to the deceased's son aged
20 40, and for the sake of simplicity,
21 disregarding exemptions which are of no
22 significance for present purposes.



	Dutiable Value of Succession	Rates of Duty		Duty
		Initial	Additional	
Life interest of wife \$1,000,000 x .04 x \$9.72295*	\$388,918.	12.9%	19.6%	\$126,398.35
Future expectancy of son \$1,000,000 - \$388,918.	611,082.	12.9%	24.8%	230,377.91
Totals	\$1,000,000.			\$356,776.26

(*This formula is the aggregate net value at 4% interest and the value from Table III of an annuity of \$1.00 per annum on the life of a woman aged 65.)

30. The insignificant part played by the regulations and tables under the old Act can be seen if we assume that the wife, because of her unusually good health and the many advances in medical science since 1937, had a far longer life expectancy than that prescribed by the tables, and also that money rates were low at the time of the husband's death. In the result, her life interest at the date of the death, was actually worth \$700,000.00. Recalculating the succession duties payable on this basis would produce the following results:

	Dutiable Value of Succession	Rates of Duty		Duty
		Initial	Additional	
Life interest of wife	\$700,000.	12.9%	23.4%	\$254,100.
Future expectancy of son aged 40	300,000.	12.9%	19.9%	98,100.
Totals	\$1,000,000.			\$352,200.



31. It is readily apparent that despite the tremendously enhanced value ascribed to her life interest, the aggregate net value of the estate and the initial rate of duty remain unchanged. The total duty payable is virtually unchanged. The only change of any significance is the shifting of duty to the wife's succession from that of the son. This was of little, if any, significance under the old Act because it was the invariable practice of probate lawyers to make all duties payable out of the estate.

32. Under the old Act and regulations the Minister's discretion to determine rules, method, standards of mortality and value and rates of interest applicable to the valuation of annuities, terms of years, life estates, income or other estates and interests in expectancy was expressly limited to such interests occurring in the successions being taxed. They were not applicable where one of the assets of an estate was a life interest, future expectancy, etc. in some other estate or trust.

33. In the Smith and Rudd case, the Department attempted to use them to value an income interest which the Fisher estate had in the estate of the late Charles Woodward. The Supreme Court of Canada held that they could not be so applied.

34. Section 35 of the Dominion Succession Duty Act was amended in 1952 (R.S. 1952 C.317, S.8.) to circumvent the decision in the Smith and Rudd case and extend the powers of the Minister so that he could determine the rules, methods, standards of mortality, values and rates of interest to be applicable in the valuing of



every annuity, term of years, life interest, income or other estate or interest in expectancy, whether it fell within a succession subject to duty or not. However, no change was made in the regulations. It was for this reason that the Exchequer Court in the Burns case held that the regulations were inapplicable in determining the value of a future expectancy which did not fall with the successions being taxed.

35. The Estate Tax Act has been passed and made applicable to all estates of persons dying on or after January 1st, 1959. The same tired old regulations and tables have been re-enacted with appropriate technical changes in their form but none in their substance. The Department has achieved the power to value any income right, annuity, term of years, life or other similar interest or interest in expectancy in accordance with the rules, standards of mortality and interests contained in the regulations and tables. They are now free to value such interests at double or treble their fair market value as they attempted to do in the Rudd and Smith case and the Burns case, and to tax them at double or quadruple the amount of tax which other types of property of a similar fair market value would attract.

36. It is respectfully submitted that such interests should not be subjected to such inequitable treatment and that the concept of fair market value should again be employed as the only basis of valuing any type of property for estate tax purposes.

37. The may be simply achieved in the Estate Tax Act by deleting therefrom Section 58 (1)(s)(1) and extend-



1 ing Section 58 (1)(s)(ii) to "all property". Equity
2 will then prevail as every taxpayer under the Act will
3 be on the same footing and a uniform concept of value
4 will apply to all types of property.

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6 All of which is respectfully submitted.

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10 R. J. Burns.
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SCHEDULE "A"

	<u>Value</u>	<u>Tax thereon</u>	
Smith and Rudd v. M.N.R.	\$213,667.		
	<u>200,000.</u> -	\$44,000.	
	\$ 13,667.@ 28%	<u>3,828.</u>	
		\$47,828.	
	\$ 67,230.		
	<u>60,000.</u> -	\$10,200.	
	\$ 7,230.@ 22%	<u>1,591.</u>	
		\$11,791.	406%
Burns et al v. M.N.R.	\$810,647.		
	<u>750,000.</u> -	\$227,500.	
	\$ 60,647.@ 40%	<u>24,259.</u>	
		\$251,759.	
	\$486,035.		
	<u>450,000.</u> -	\$119,500.	
	\$ 36,035.@ 34%	<u>12,252.</u>	
		\$131,752.	191%



SCHEDULE "B"

Regulation 10:

(1) the value of any income right, annuity, term of years, life or other similar estate, and of any interest in expectancy shall be determined

(a) where the income right, annuity, term of years, life or other similar estate or the interest in expectancy does not depend on a life contingency, on the basis of compound interest at the rate of four per cent per annum with annual rests, and

(b) where the income right, annuity, term of years, life or other similar estate or the interest in expectancy depends on a life contingency, on the basis of compound interest at the rate of four per cent per annum with annual rests and the standard of mortality as set out in Table I of the Schedule.

(2) Tables II, III and IV of the Schedule shall be used as far as they may be applicable for the purpose of determining the value of any income right, annuity, term of years, life or other similar estate or the interest in expectancy.

(3) For the purposes of subsection (1), the annual income from any property, after making all deductions shall be deemed to be four per cent of the value of that property as determined by the purposes of the Act.



SCHEDULE TO REGULATION 10

TABLE I

Prescribed Standard of Mortality

(2)

Years of age	Rate of Mortality	Years of age	Rate of Mortality	Years of age	Rate of Mortality
At Birth	.011310				
1	.005110	41	.004699	81	.093709
2	.003320	42	.005068	82	.100723
3	.002160	43	.005468	83	.108229
4	.001500	44	.005898	84	.116257
5	.001234	45	.006362	85	.124831
6	.001243	46	.006863	86	.134000
7	.001250	47	.007403	87	.143786
8	.001255	48	.007983	88	.154211
9	.001256	49	.008613	89	.165320
10	.001257	50	.009288	90	.177138
11	.001257	51	.010018	91	.189709
12	.001257	52	.010805	92	.203062
13	.001257	53	.011653	93	.217216
14	.001259	54	.012566	94	.232198
15	.001262	55	.013554	95	.248059
16	.001267	56	.014614	96	.264796
17	.001277	57	.015760	97	.283515
18	.001290	58	.016992	98	.305778
19	.001308	59	.018321	99	.331840
20	.001331	60	.019753	100	.362122
21	.001360	61	.021297	101	.397579
22	.001398	62	.022958	102	.438921
23	.001442	63	.024749	103	.487276
24	.001496	64	.026675	104	.542279
25	.001561	65	.028751	105	.610442
26	.001634	66	.030986	106	.690722
27	.001721	67	.033390	107	.800000
28	.001822	68	.035978	108	.833333
29	.001936	69	.038763	109	1.000000
30	.002065	70	.041758		
31	.002212	71	.044980		
32	.002377	72	.048444		
33	.002562	73	.052167		
34	.002763	74	.056167		
35	.002981	75	.060464		
36	.003216	76	.065081		
37	.003470	77	.070032		
38	.003742	78	.075349		
39	.004037	79	.081050		
40	.004356	80	.087161		



TABLE II

Present Value of Life Interests or Life Annuities

The values of an annuity of \$1.00 per annum on a single life based on the Standard of Mortality and the rate of interest prescribed for the purposes of section 58(1)(s)(i) of the Act.

Years of age to nearest Birthday	Values	Years of age to nearest Birthday	Values	Years of age to nearest Birthday	Values
	\$		\$		\$
At Birth	22.30082				
1	22.45817	41	16.71038	81	5.08220
2	22.47646	42	16.46085	82	4.83199
3	22.45337	43	16.20648	83	4.58812
4	22.40206	44	15.94740	84	4.35075
5	22.33313	45	15.68370	85	4.12002
6	22.25516	46	15.41547	86	3.89602
7	22.17416	47	15.14287	87	3.67883
8	22.08999	48	14.86604	88	3.46848
9	22.00245	49	14.58511	89	3.26492
10	21.91133	50	14.30028	90	3.06805
11	21.81646	51	14.01172	91	2.87765
12	21.71766	52	13.71966	92	2.69343
13	21.61479	53	13.42430	93	2.51491
14	21.50767	54	13.12589	94	2.34129
15	21.39617	55	12.82464	95	2.17131
16	21.28013	56	12.52088	96	2.00311
17	21.15942	57	12.21484	97	1.83355
18	21.03393	58	11.90684	98	1.66145
19	20.90354	59	11.59717	99	1.48899
20	20.76815	60	11.28616	100	1.31763
21	20.62767	61	10.97413	101	1.14827
22	20.48200	62	10.66145	102	.98233
23	20.33109	63	10.34844	103	.82082
24	20.17487	64	10.03549	104	.66494
25	20.01331	65	9.72295	105	.51082
26	19.84638	66	9.41120	106	.36374
27	19.67402	67	9.10063	107	.22313
28	19.49627	68	8.79160	108	.16026
29	19.31314	69	8.48450		
30	19.12463	70	8.17972		
31	18.93078	71	7.87762		
32	18.73166	72	7.57859		
33	18.52733	73	7.28300		
34	18.31791	74	6.99119		
35	18.10340	75	6.70353		
36	17.88383	76	6.42033		
37	17.65918	77	6.14195		
38	17.42949	78	5.86865		
39	17.19475	79	5.60075		
40	16.95504	80	5.33852		

FREQUENCY FACTORS: If payments are to be made more frequently than annually, the following additions shall be made to the above values:

Annuity Payable	Addition
Monthly	.45833
Quarterly	.37500
Semi-Annually	.25000



TABLE III

(1)

Present Value of an Annuity for a Term Certain

Values of an annuity of \$1.00 per annum for any number of years not exceeding 100 based on the rate of interest prescribed for the purposes of section 58(1)(s) of the Act.

Number of Years	Values	Number of Years	Values	Number of Years	Values
	\$		\$		\$
1	.96154	36	18.90828	71	23.45626
2	1.88609	37	19.14258	72	23.51564
3	2.77509	38	19.36786	73	23.57273
4	3.62990	39	19.58448	74	23.62762
5	4.45182	40	19.79277	75	23.68041
6	5.24214	41	19.99305	76	23.73116
7	6.00205	42	20.18563	77	23.77996
8	6.73274	43	20.37079	78	23.82689
9	7.43533	44	20.54884	79	23.87201
10	8.11090	45	20.72004	80	23.91539
11	8.76048	46	20.88465	81	23.95711
12	9.38507	47	21.04294	82	23.99722
13	9.98565	48	21.19513	83	24.03579
14	10.56312	49	21.34147	84	24.07287
15	11.11839	50	21.48218	85	24.10853
16	11.65230	51	21.61749	86	24.14282
17	12.16567	52	21.74758	87	24.17579
18	12.65930	53	21.87267	88	24.20749
19	13.13394	54	21.99236	89	24.23797
20	13.59033	55	22.10861	90	24.26728
21	14.02916	56	22.21982	91	24.29546
22	14.45112	57	22.32675	92	24.32256
23	14.85684	58	22.42957	93	24.34861
24	15.24696	59	22.52843	94	24.37367
25	15.62208	60	22.62349	95	24.39776
26	15.98277	61	22.71489	96	24.42092
27	16.32959	62	22.80278	97	24.44319
28	16.66306	63	22.88739	98	24.46461
29	16.98371	64	22.96855	99	24.48520
30	17.29203	65	23.04668	100	24.50500
31	17.58849	66	23.12181		
32	17.87355	67	23.19405		
33	18.14765	68	23.26351		
34	18.41120	69	23.33030		
35	18.66461	70	23.39451		

FREQUENCY FACTORS: If payments are to be made more frequently than annually, the above values shall be multiplied by the following appropriate factors:

Annuity Payable	Factors
Monthly	1.018204
Quarterly	1.014877
Semi-Annually	1.009902



(5)

TABLE IV

Present Value of Deferred Gifts

Present Value of \$1.00 due at the end of any number of years up to 70 based on the interest prescribed for the purposes of section 58 (1)(s)(i) of the Act.

Number of Years	Present Value	Number of Years	Present Value	Number of Years	Present Value
	\$		\$		\$
1	.96154	24	.39012	47	.15828
2	.92456	25	.37512	48	.15219
3	.88900	26	.36069	49	.14634
4	.85480	27	.34682	50	.14071
5	.82193	28	.33348	51	.13530
6	.79031	29	.32065	52	.13010
7	.75992	30	.30832	53	.12509
8	.73069	31	.29646	54	.12028
9	.70259	32	.28506	55	.11566
10	.67556	33	.27409	56	.11121
11	.64958	34	.26355	57	.10693
12	.62460	35	.25342	58	.10282
13	.60057	36	.24367	59	.09886
14	.57748	37	.23430	60	.09506
15	.55526	38	.22529	61	.09140
16	.53391	39	.21662	62	.08789
17	.51337	40	.20829	63	.08451
18	.49363	41	.20028	64	.08126
19	.47464	42	.19257	65	.07813
20	.45639	43	.18517	66	.07513
21	.43883	44	.17805	67	.07224
22	.42196	45	.17120	68	.06946
23	.40573	46	.16461	69	.06679
				70	.06422

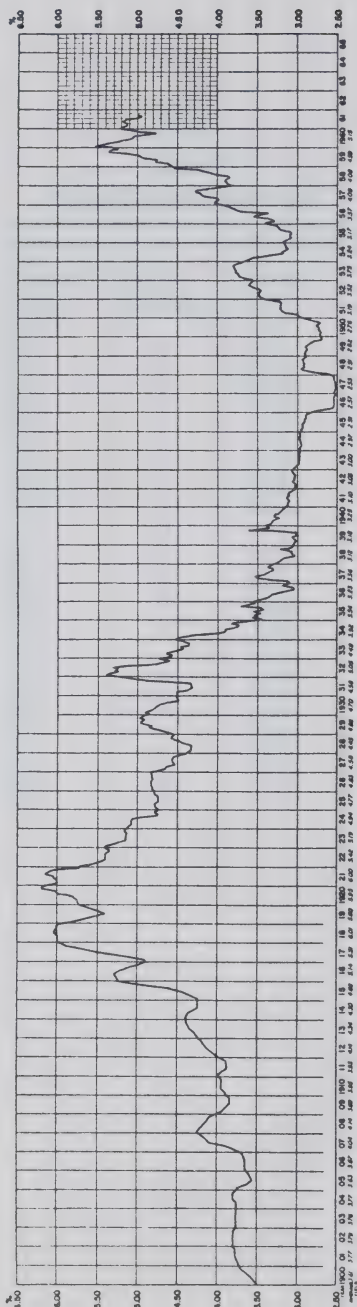


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24

SCHEDULE "B"

CANADA GOVERNMENT BOND YIELDS



The above chart traces government bond yields in Canada since 1900. During the period of 1900 to 1925 these yields were calculated on the basis of the average yield of outstanding Province of Ontario Bonds. Since 1925 yields have been calculated on the basis of the weekly average yield on Government of Canada internal loanable issues due or callable after 10 years, excluding the perpetual issue. The yield is not weighted to reflect amounts outstanding.

WOOD, GUNDY & COMPANY
LIMITED
Research Department



SCHEDULE "D"

Complete expectations of life

	<u>Age</u>	<u>Male</u>	<u>Female</u>
(1)			
<u>Population mortality table:</u>			
Canadian Life Table 1955-1957	30	41.98	46.17
	40	32.74	36.69
	50	24.04	27.65
	60	16.54	19.34
	70	10.51	12.17
	80	5.89	6.75
(2)			
<u>Annuitants' mortality table:</u>			
Annuity Table for 1949 (without projection)			
	30	47.63	52.17
	40	37.24	41.87
	50	27.49	31.93
	60	19.09	22.60
	70	12.07	14.38
	80	6.77	7.97
<u>Estate Duty Prescribed Table</u>			
<u>1937 Standard Annuity Table</u>			
<u>(not rated down for females)</u>			
	30	41.91	41.91
	40	33.00	33.00
	50	24.78	24.78
	60	17.55	17.55
	70	11.60	11.60
	80	7.11	7.11

(1) Canadian Life Tables 1955-1957 produced by the Dominion Bureau of Statistics, Health and Welfare Division, Vital Statistics Section, and published under Catalogue No. 84-510 Occasional by The Queen's Printer and Controller of Stationery in 1960.

(2) constructed by Messrs. W. A. Jenkins and E. A. Lew and contained in their paper "A New Mortality Basis for Annuities", Transactions of the Society of Actuaries Vol. I, No. I, p. p 369 - 466. This table was reproduced (with extensions to juvenile ages under age 10) in a volume entitled "Annuity Tables" compiled, published and copyrighted by the Society of Actuaries, and printed by Wisdom Press Inc., New York 11, N. Y. in 1952.



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TORONTO, ONTARIO

DONALD C. McEWEN
M.D., F.R.C.S. (C), M.R.C.O.G.
Obstetrician and Gynecologist
108 Medical & Dental Building
Regina, Saskatchewan

May 17, 1963.

The Secretary,
Royal Commission on Taxation,
Ottawa, Ont.

Dear Sir:

The writer is a private Canadian citizen. Like most such Canadians the facts of life with regard to birth, taxes and death, are recognized. One accepts today that a fair and proportional amount of personal income will continue to be taxed in many ways, by different governments, in a democratic and responsible fashion.

It is hoped that the Royal Commission on Taxation will consider one aspect of Urban and Municipal taxation of importance to every home owner and home maker in Canada. In particular it is submitted that Urban and Municipal taxes should be allowed as deductible from gross personal income tax purposes.

Others closer to and more familiar with the growing financial needs of cities and municipalities will no doubt be appearing before the Royal Commission. Suffice it to say that rising mill rates of nearly all such local governments reflect increasing needs of education, sanitation, flood and storm control, social welfare, slum clearance, traffic congestion, police protection, recreational facilities, bridges



- 2 -

and other areas of service for which these administrations are responsible.

Details of gross ordinary revenue of municipal governments, fiscal year ending nearest December 31, 1959, (Canada Year Book 1962, page 1054)

reveal a gross total revenue of these governments in the year 1959 to be \$1,764,574,000.00. Of this tremendous sum of money, exclusive of business, poll, amusement, sales, household and tenant, licenses, government subsidies and other sources, real and personal property taxation contributed \$1,083,180,000.00 to this total.

Home owners in Canada not only paid these taxes, but also their normal proportional contribution to income tax. This submission is to challenge the inequity of such a situation where direct taxes of such magnitude are not allowed deductible from gross personal income.

To simplify the inequity of this situation it is necessary to be theoretical, for the average income taxation rate of home owners is not available. If, however, the average taxation rate of each home owner is 15%, not an unreasonable assumption, then home owners, over and above their normal income tax assessments, are supplying \$165,000,000.00 to the income tax fund. If the average is 20% then \$220,000,000.00 would be the amount in 1959, collected in income tax where total returns amounted to \$1,580,041,000.00.



1
2 It is submitted that home owners in Canada are
3 being unfairly exploited by taxation. Besides
4 supplying over a billion dollars to finance urban
5 and municipal governments they are supplying at
6 least 10% of the total income tax resources of
7 Canada, over and above their normal assessment.
8 By such taxes not being deductible, each home
9 owner attains or moves closer to a higher income
10 tax bracket. It is further appreciated that
11 local improvement of property results in increased
12 assessed values which in turn results in increased
13 urban and municipal taxes.
14 Home building and home improvements are basic factors
15 in our construction industries. To the extent they
16 are discouraged so is unemployment increased and
17 an obvious vicious circle encouraged.
18 To regain these tax monies for the federal govern-
19 ment it is submitted further that if such taxes were
20 allowed as deductible for personal income tax, the
21 lost \$160,000,000.00 or \$200,000,000.00 - whatever
22 the sum involved, would be recovered by the Federal
23 Government, increasing the rate on every tax payer
24 in Canada 1%. It is appreciated however that the
25 lost \$200,000,00 would still be taxable at ordinary
26 rates, netting the Federal Government some
27 \$40,000,000.00 and conceivably only those whose
28 taxable income exceeds three, four or five
29 thousand dollars would require the 1% increment
30 to regain this lost income for the Federal Government.



1 All this is submitted by the writer believing the
2 present double taxation of urban and rural taxes
3 to be wrong, that such taxes are destined to
4 increase, and those citizens of Canada who are
5 contributing so much by buying, or beautifying
6 their homes and property can no longer afford
7 to supply their cities and municipalities with
8 tax monies and yet be penalized by continuing to
9 supply about 10% of the personal income tax funds
10 of Canada, over and above their normal contribution.

11 Respectfully submitted,

12 Yours truly,

13
14 Signed: D.C. McEwen,

15 D. C. McEwen, M.D.
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Otto J. Steiner
P.O. Box 1258
BANFF, Alberta

Banff, January 15, 1963

The Royal Commission on Taxation
P.O. Box 466
OTTAWA

Dear Sirs:

According to my application dated November 29,
1962, I would like to file herewith the following
submission.

This submission is in its main points based on
the presumption that a modern tax act should amount to

TAXATION ACCORDING TO THE ABILITY TO PAY

To this however I would like to add the following
explanations of my interpretation of this principle:



1 TAXATION ACCORDING TO ABILITY TO PAY

2 The wording of this principle easily gives the
3 impression that taxes only should be levied if and when
4 the economic circumstances of the taxpayer are such, that
5 the charges would not hurt any more. Usually however,
6 needs tend to grow with increases in income or, often,
7 even a little faster. For this reason most, if not all
8 taxpayers would never feel they had reached the point
9 where taxes hurt no more.

10 In these days however, the Government provides
11 to its citizens many services which are just as essential
12 as food, clothing and housing. Moreover, it is contrary
13 to basic ideas of democracy, that a majority of the
14 populations, through the machinery of a democracy, can
15 decide what the Government should do without sharing the
16 costs of such decisions.

17 While referring hereafter to the principle of
18 "Taxation according to the ability to pay" it is submitted
19 that we should understand this as meaning that the burden
20 of taxation should fall on taxpayers according to their
21 ability to pay.

22 A summary of my submission, based on this, is as
23 follows:

24 (1) Have minimum exemptions established for areas
25 with the lowest cost of living. Allow additional exemp-
26 tion of different amounts in areas with higher costs of
27 living.

28 (2) Abolish any differential in exemptions between
29 children "qualifying for family allowances" and others.

30 (3) Incorporate a clause into the Income Tax Act



1 providing that, regardless of any tax arrived at according
2 to any schedule, the maximum tax to be levied from any
3 income shall not exceed 40%.

4 (4) Allow a deduction from interest income equal
5 to offset the reduction in purchasing power of the capital
6 yielding such income during the year the interest was
7 earned.

8 (5) Re-introduce the surtax on investment income and
9 make provisions to have it cover all such income.

10 (6) Abolish the existing 20% tax credit on dividends
11 from Canadian Corporations.

12 (7) Provide, through appropriate clauses, that the
13 hidden income derived from capital invested in private
14 homes be included in the income tax return and subject
15 to income tax like any other similar income.

16 (8) Replace the present system of Estate taxes and
17 use a single tax rate, related only to the amount received
18 by a beneficiary of an estate and the beneficiary's degree
19 of relationship to the deceased.

20 Abolish all Estate taxes between husband and
21 wife and abolish or keep to a minimum Estate taxes between
22 parents and children.

23 (9) Abolish the present 15% withholding tax on
24 interest income paid to foreign investors.

25 (10) Replace the present corporation tax rates with
26 one which makes the rates dependent on the ratio of the
27 taxable profit compared to the corporations working
28 capital.

29 (11) Explore ways and means of giving the Municipali-
30 ties additional revenues, including a cut into the proceeds



1 of the general income tax to enable them to do away with
2 property taxes.

3 (12) Make capital gains from real estate generally
4 taxable, reserving the income derived from such tax to the
5 Municipalities, or, where such are not existent, to the
6 Provinces.

7 (13) Institute and follow policies which in the long
8 run will put municipalities in the first, Provinces in the
9 second and the Federal Government in the third places as
10 far as their duties and their tax revenues are concerned.

11 (14) Have the scope of the advisory tax board
12 suggested by the Lawyers and Chartered Accountants
13 Associations enlarge so that this board studies and
14 establishes continuously the maximum tax burden which may
15 be imposed on individuals and corporations without harming
16 our economic development and defeating its purpose.

17 (15) Explore the possibilities of a tax treaty with
18 Switzerland by keeping in mind that a special advantage
19 may be gained which would help to increase the flow of
20 mortgage capital from Switzerland to Canada.

21 Would you please accept the following explana-
22 tions of these suggestions:

23 1. EXEMPTIONS

24 Have minimum exemptions established for areas
25 with the lowest cost of living. Allow additional
26 exemptions of different amounts in areas with higher costs
27 of living.

28 Example:

29 A taxpayer, being single will be able to claim
30 minimum exemptions of \$1,100.00. If he earns \$5,100.00



1 per year, his taxable income will be \$4,000.00, calling
2 for a tax of \$610.00, regardless if he lives in the
3 Maritimes, where living costs are relatively low or in the
4 West, where living costs are higher or in the Northwest
5 Territories, where they are excessive. This is usually
6 offset by higher wages, etc. in areas with higher costs
7 of living.

8 Suppose that it needs \$1,000.00 to take care of
9 the difference in cost of living this taxpayer will then,
10 if his wages are accordingly higher although he is
11 economically not better off, be taxable for \$5,000.00
12 income, calling for \$830.00 in taxes, or, if the difference
13 amounts to \$2,000.00, calling for \$950.00 instead of the
14 above mentioned \$610.00 in taxes. Although the act,
15 superficially looked at seems to treat taxpayers equally,
16 it is obvious that it fails to do so in the true sense.
17 The principle of equal taxation according to the ability
18 to pay is not carried through.

19 The cost of living in the different areas of
20 Canada is well known and continuously established. While
21 it is hardly conceivable that additional exemptions in
22 accordance with the existing difference in various areas
23 will ever be introduced (that is additional exemptions
24 ranging perhaps up to \$1,000.00 or \$2,000.00 per taxpayer)
25 some consideration, on a lower scale, should be given in
26 a modern tax act.

27 2. CHILDRENS' EXEMPTIONS

28 Abolish any differential in exemptions between
29 children "qualifying for family allowances" and others.
30 At the present time, the exemptions for children qualifying



1 for family allowances is \$250.00 less than for those not
2 qualifying. A taxpayer with children qualifying will find
3 that the greater his income is, a gradually part of the
4 childrens' allowances he gets will be eaten up by the
5 additional tax he has to pay on account of the reduced
6 childrens' exemptions allowed to him on his income tax
7 return for children qualifying.

8 The loss amounts to \$ 27.50 if he is in the 11% income tax
9 bracket

10	\$ 35.00	do.	14%	
11	\$ 42.50	do.	17%	
12	\$ 47.50	do.	19%	
13	\$ 55.00	do.	22%	
14	\$ 65.00	do.	26%	
15	\$ 75.00	do.	30%	
16	\$ 87.50	do.	35%	
17	\$100.00	do.	40%	etc.

18 The system allows that from a certain point on the
19 taxpayer having children "qualifying" is, on account of
20 the existence of family allowances, progressively penalized,
21 as the tax deductions he loses exceeds the family
22 allowances he gets for these children. The act seems to
23 make sure that such taxpayer cannot escape this as it
24 states that the fact that these children "qualify" is
25 decisive. It does not matter if such allowances are not
26 claimed or cashed.

27 To undo with one act (Tax Act) what another act
28 (Family Allowance Act) does it basically wrong. It will
29 obscure the issue.

30 A taxpayer in economically better circumstances



1 will, as a rule, spend more money for his children. It is
2 understandable that family allowances cannot take care of
3 that, but are uniform. The effect of the present system
4 is however, that with the aid of the tax act he will
5 have less and less of the fixed family allowances left
6 for his children, until he reaches the point where he is
7 at a disadvantage for having children. Following clear
8 principles therefore calls, in my opinion, for the
9 abolishment of any differential between children "qualifying"
10 for family allowances and others, that is, let taxation
11 be governed only by facts related to it.

12 However, the least which should be done is
13 removing the term "qualifying" and replacing it by
14 "having received". A taxpayer, proving that he did not
15 collect family allowances although his children would have
16 qualified would then be at least able to avoid the
17 situation where he would be at a financial disadvantage
18 for having children "qualifying".

19 3. INCOME TAX SCHEDULE

20 Incorporate a clause into the Income Tax act
21 providing that, regardless of any tax arrived at according
22 to any schedule, the maximum tax to be levied from any
23 income shall not exceed 40%.

24 I do not know of any yardstick by which one
25 could really prove that a certain tax rate applicable to
26 a certain income truly reflects the ability to pay.

27 The present schedule shows rates up to 80% of
28 the taxable income. This rate and a number of lower
29 ones, however, violate, in my opinion, regardless of the
30 fact to what income brackets they apply, the guarantee of



1 private property. There should also be taken into considera-
2 tion the well known fact that one may kill the goose laying
3 the golden eggs. People in financial circumstances of this
4 type are often free to live wherever they please. This
5 applies today far more than only 20 years ago, due to the
6 tremendous improvement in travelling facilities.

7 As a side product we may find that former
8 Canadian ownership has, if such people moved out of the
9 country to places with a more reasonable approach to
10 taxation, now become foreign ownership. At the same time,
11 the managerial skills of such people, formerly fully
12 available to Canada, may gradually be lost. They are
13 easily interested in opportunities at their chose domicile,
14 and even drain capital out of the country to finance them.

15 If income of this size resulted from salaries,
16 services rendered, etc. one can safely assume that people
17 with the knowledge and skills commanding such remunera-
18 tions, will in most cases simply refuse to take on any work
19 if it means that only 20% of their earnings will be left
20 after taxes. The only way out to interest them will be
21 in offering remunerations which, after deducting taxes
22 still leaves a fair return to them. I suggest that a job
23 worth \$10,000.00 should leave at least \$6,000.00 (after
24 taxes) to make it worthwhile. To achieve this, one would
25 have to offer for the same job \$30,000.00 to a taxpayer
26 hit by an 80% tax rate. I suggest that as a result of
27 the present system a good number of exaggerated costs
28 have now to be absorbed in increased prices of our
29 products.

30 It is my submission that any taxation exceeding



1 40% of the taxable income is unrealistic and as a whole
2 defeats its purpose.

3 The suggested change would mean that the present
4 rate schedule has to stop at the 50% rate, as it is already
5 at this point that a total charge of 40% of the taxable
6 income is reached.

7 4. INTEREST INCOME

8 Allow a deduction from interest income equal
9 to offset the reduction in purchasing power of the capital
10 yielding such income during the year the interest was
11 earned.

12 From 1949 to 1961 the consumer price index for
13 Canada shows an increase of roughly 30%. That is an
14 average of $2\frac{1}{2}\%$ per year. Suppose a taxpayer had during the
15 same period an amount of \$100,000.00 invested in bonds,
16 and earned an interest income of \$5,000.00 every year.
17 Looking back he will find that half of the interest
18 received was needed to cover the "depreciation" on the
19 value of the capital invested. In fact, any general
20 price increase (and such increases seem to be a continuous
21 process) means a depreciation of similar importance of
22 any nominal assets (such as bonds, mortgages, savings
23 accounts, loans), while other assets like share, real
24 estate, inventories are bound to follow the general price
25 increase.

26 The situation as it exists now with regard to
27 taxation of interest income would be similar to a tax act
28 which makes all income earned by the help of machinery
29 taxable, denying a deduction for the depreciation of the
30 machinery used to produce such income. By using up the



1 full interest derived by a taxpayer from his nominal
2 assets, he is simply depleting them. Such taxpayer's real
3 ability to pay is restricted to that part of his interest
4 earnings which is left after having deducted the amount
5 needed to cover the decreases in purchasing power of the
6 capital producing this income during the period the
7 interest was earned.

8 To average year to year fluctuations in the
9 rise of the consumer price index, it is suggested that the
10 deduction allowed in a specific taxation year be the
11 average of such rise which occurred in the 3 or 4
12 preceding years.

13 A plea for justice for this class of taxpayer
14 is justified for two further reasons:

15 (a) It has become standard procedure for the
16 Government to strongly influence interest rates. This is
17 part of accepted measures to counteract economic
18 fluctuations.

19 Our economy is influenced by capital cost on
20 the one hand and labour cost on the other hand. What
21 would labour say if it were pushed around in the same
22 manner? Such measures can also, for the owners of bonds
23 or mortgages, mean losses of thousands of dollars over-
24 night if they, for any reason, happen to have to sell such
25 securities at reduced market prices brought about by an
26 increase in the interest level.

27 (b) Hidden in payments made by Life Insurance
28 Companies to any taxpayer, being a policyholder, are im-
29 portant sums of accrued interest earned by such insurance
30 companies. They are never taxable.



1 5. INVESTMENT INCOME

2 Re-introduce the surtax on investment income
3 and make provisions to have it cover all such income.

4 A taxpayer's ability to work and earn wages,
5 salaries, etc. is limited. He should, out of such earnings
6 be able to make savings to provide for old age.

7 A person living on investment income (especially
8 when interest income from nominal assets is treated as
9 outlined under "Interest Income") does not have to
10 provide for his or her old age as the source of income
11 does not exhaust itself. Taxation according to ability
12 to pay, therefore, demands that the tax burden of a
13 taxpayer depending on his earnings be lower than the one
14 of a taxpayer living off investment income.

15 However, the system previously in effect for
16 assessing a surtax on investment income was rather in-
17 complete. It did, for instance, not include investment
18 income from a businessman's own capital, hidden in his
19 profit and loss statement. Later on income from real
20 estate was also excluded. It never included hidden
21 investment income from funds invested in a private home,
22 etc.

23 A just and equitable tax act could not tolerate
24 the serious inequities resulting from such shortcomings.
25 The difficulties connected with achieving justice are not
26 great and in no way out of proportion compared with the
27 benefits from the results. Another way to achieve the
28 desired result of a differential between earnings and in-
29 vestment income would be by introducing a capital tax on
30 all assets a taxpayer owns. This, however, is far more



1 complicated to achieve and often not satisfactory, as it
2 hits the taxpayer with a uniform tax, regardless of the
3 percentage of his income from his investment or even
4 regardless if there is any income or not.

5 6. DIVIDEND TAX CREDITS

6 Abolish the existing 20% tax credit on dividends
7 from Canadian Corporations.

8 This is a left-over from the time when the tax
9 rate for corporations amounted to 20% and the refund was
10 meant to do away with double taxation. That is to say,
11 taxing the profits of a company and taxing them again in
12 the hands of the shareholder. In the meantime, corpora-
13 tions have been subject to much higher taxation. The
14 present situation, therefore, amounts, to a great extent,
15 going through the motions of something which has lost
16 its meaning. It complicates things unnecessarily.

17 On the other hand, it is generally agreed that
18 taxing corporation profits as such and dividends in the
19 hands of the shareholders is, to a great extent not true
20 double taxation, as corporations tend to add their taxes
21 to the costs of their products. Corporations complain,
22 and in my opinion with reason, that the Canadian corpora-
23 tion tax rates have reached such a high level that they
24 impair the ability of our country's industry to compete
25 with the industries of other countries on the world
26 market.

27 For budgetary reasons there will certainly be
28 strong opposition to allowing substantial reductions in
29 corporation tax rates to acknowledge these arguments.
30 The abolishment of dividend tax credits would, however,



1 make funds free to cover the effects of a reduction in
2 corporation tax rates. The shareholder may also realize
3 that for such reduction of corporation tax rates higher
4 dividends will be possible, offsetting the loss of
5 dividend tax credits.

6 7. CAPITAL INVESTMENT IN HOMES

7 Provide, through appropriate clauses, that the
8 hidden income derived from capital invested in private
9 homes be included in the income tax return and subject
10 to income tax like any other similar income.

11 Example: A taxpayer, forced to live as a tenant or choosing
12 for any reason to do so, may face the following situation:

13 Suppose he earns	\$10,000.00
14 and holds \$20,000.00 in bonds with 15 a return of	1,100.00
16 thus arriving at a net income of	11,100.00
17 If he is entitled to only basic 18 exemptions of	1,100.00
19 he will have a taxable income of	\$10,000.00
20 for which he will pay \$2,170.00 in taxes.	

21 If, however, he decides to buy a house for \$20,000.00
22 cash, using his bond capital for this payment, his taxable
23 income will automatically drop by \$1,100.00 to \$8,900.00,
24 with an income tax charge reduced to \$1,840.00. The
25 saving amounts to \$330.00 per year.

26 Of course, as a home owner he will now have to
27 pay property tax. Everybody knows and admits, however,
28 that tenants pay property tax as well, included ~~in~~ the
29 amount of their rents.

30 The amount of the hidden advantage and the
hidden income accruing under the present system to a home



owner is determined by the degree to which he can make a cash down payment and replace mortgage interest payments through his own funds. Already for this reason this system is not equitable.

Furthermore, it prevents us from establishing the true total income of a taxpayer. This sum, however, determines the tax rates applicable. For this reason the principle of taxation according to the ability to pay is violated.

The proper remedy would consist in assessing a taxable income from homes in the same manner as it is established for revenue property. The missing rental income would then be replaced by an estimate of the rental value of a home, occupied by its owner. This, however, is relatively cumbersome. The following procedure could be considered instead. The market value of homes is generally expressed in the existing assessment for property taxes. Deduct from this value the amount of the mortgage carried and assess a certain percentage (which may be equal for instance to the existing average yield of Government bonds) as net taxable income from such home.

It is suggested that additional income tax revenue derived by this manner from home owners be established for each Province and made available to them with the condition that they may be used to lessen property tax burdens (including those on revenue properties) or better still, eliminate property taxes altogether.

8. ESTATE TAXES

Replace the present system of Estate taxes and



1 use a single tax rate, related only to the amount received
2 by a beneficiary of an estate and the beneficiary's degree
3 of relationship to the deceased.

4 Abolish all Estate taxes between husband and
5 wife and abolish or keep to a minimum Estate taxes
6 between parents and children.

7 Estate Tax requirements very often force husband
8 and wife to break up the economic unity between them which
9 would otherwise exist. This is fundamentally undesirable.
10 Depending on economic circumstances, the knowledge of the
11 problem, and legal help, Estate taxes can, in most cases,
12 be avoided in connection with the death of one of the
13 marriage partners. A tax which can, legally be avoided,
14 depending on circumstances which have nothing to do with
15 the reason for which the tax was imposed is not a good
16 tax. A wife may often find she has to pay Estate Taxes
17 for an estate her husband left which, in one way or
18 another she has helped to create.

19 The Commorientes Acts of the Provinces provided
20 that in case of a simultaneous death of husband and wife
21 and where there is no possibility of determining the
22 exact time of the death, it is presumed that the younger
23 partner survived the older one. As generally the wife is
24 younger, this assumption is a very advantageous one for
25 the treasury. It may in many cases charge Estate taxes
26 from husband to wife and immediately following, from her
27 to the beneficiaries of her estate, often the children.
28 It is suggested that this is, from a legal point of view,
29 a very questionable procedure. In view of the rather
30 shaky grounds on which Estate taxes between husband and



1 wife can be defended, it would also be more appropriate
2 if the act, in such cases, provided that if death came
3 simultaneously, the estates from both went separately and
4 directly to the beneficiaries.

5 Estate tax requirements tend to break up family
6 businesses, often leading to them changing hands to
7 foreign owners. They are another force destroying some of
8 the ties holding families together. It is therefore
9 submitted that bequests to children should be exempted
10 before calculation of taxes or that a lower rate be appli-
11 cable on bequests to children. It may be noted that in
12 some cases children may greatly assist in creating
13 assets for their parents in the same manner as spouses.

14 9. WITHHOLDING TAX ON FOREIGN INVESTMENTS

15 Abolish the present 15% withholding tax on
16 interest income paid to foreign investors.

17 Except for interest from contracts in existence
18 at the time when this tax was first introduced, the tax
19 was never really paid by any foreign investors. Without
20 this tax we could have gotten their funds at an interest
21 rate which would have been just 15% lower, that is to
22 say, approximately 5% instead of 6% or approximately 6%
23 instead of 7%. The foreign investor, in making his
24 decision to invest will always wish to see that if, after
25 deduction of all the taxes levied by a country, there is
26 enough return left to interest him.

27 Thinking in terms of capital cost on the one
28 hand and labour cost on the other hand determining our
29 prices, it is obvious that the interest level prevailing
30 in a country is of great importance. I submit that



1 Canada has a very high interest level. It may well
2 represent the upper extreme to be found in countries with
3 a similar economic system. I happen to have a very good
4 knowledge of economic conditions in Switzerland, another
5 industrial nation. Her interest rates amount to only
6 roughly one-half of those prevailing here. Even taking
7 our special circumstances into consideration, it is my
8 belief that our interest rates could and should be about
9 30% lower than what they are.

10 Half of this difference has been created
11 artificially by the introduction of the withholding tax
12 on foreign investments. Its effect is that Canadian
13 investors, due to its protection, can command an interest
14 rate which is 6% instead of only 5%, or 7% instead of only
15 6%, as outlined above. In fact, the tax should better
16 be renamed: Withholding Tax for the Protection of Canadian
17 Investors, for the effect of such a tax is similar to
18 a customs duty.

19 When we realize that the tax is actually not
20 paid by the foreign investor, as the intention was, we
21 are again faced with a situation where we go through the
22 motions of something which has lost its meaning. It may
23 be noted that going through these motions means considerable
24 administrative cost.

25 It is respectfully suggested that bringing
26 interest rates in Canada down to more reasonable levels
27 is not only of great importance for our economy, but
28 also something social justice demands.

29 10. CORPORATION TAX RATES

30 Replace the present corporation tax rates with



one which makes the rates dependent on the ratio of the taxable profit compared to the corporation working capita.

Example: A taxable profit of \$50,000.00 means at the present time:

21% corporation tax on the first \$35,000.00 profit	\$7,350.00
50% corporation tax on the next \$15,000.00 profit	<u>\$7,500.00</u>
TOTAL	<u><u>\$14,850.00</u></u>

This is due no matter how much capital was involed in making the business, producing this profit possible.

If the working capital required amounted to \$200,000.00, the business is a highly profitable one, as it showed a profit of 25%. The tax rate amounts to roughly 30% of the profit. If the working capital required amounted to \$2,000,000.00, however, a profit of \$50,000.00 amounts to only 2½% and is far from being even satisfactory and the tax charge will be 30% of the profit.

The principle of taxation according to the ability to pay is entirely neglected. At first sight it may be difficult to imagine how it could be achieved. The principle, however, is relatively simple. The Government should institute a sliding scale of tax rates dependant on the ratio of the taxable profit to the working capital of the business. Suppose this rate equalled twice the percentage of the profit shown. This would in the above cases mean:

A Corporation with \$200,000.00 working capital and a profit



1 of 25%, the tax rate is 50% and corporation tax
2 is \$25,000.00.

3 On the other hand, a corporation with \$2,000,000.00
4 working capital and a profit of 2½% with a corporation
5 tax rate of 5%, the corporation tax would be \$ 2,500.00.
6 The net result for the treasury would be roughly the
7 same. It has been repeated ever so often by responsible
8 people that the present taxation of our corporations
9 is much heavier than the one industries of countries with
10 which we have to compete, have to face. This impairs
11 our economic growth. It is also a fact that the moment
12 corporation taxes amount to 50%, as it is now, the
13 standard rate for larger corporations, there is a great
14 tendency by the administration to take expenses lightly,
15 as every dollar spent actually costs the company only
16 50 cents. The end effect is waste and a further lowering
17 of our ability to compete with industries operating under
18 different conditions, more suitable to promote efficiency.

19 With the suggested abolishment of dividend
20 tax credits, it should be possible to plan on a rate
21 schedule for corporations with the aggregate net revenue
22 reduced accordingly. It is submitted that a 40% tax
23 ceiling, similar to the one suggested for individual
24 taxpayers should be instituted.

25 Under such a system, it would at the time of
26 incorporation of a company be necessary to determine the
27 amount of the share capital carefully in order not to be
28 at a disadvantage taxwise. This is not the case at
29 present. One may find many companies where the working
30 capital consists of loans advanced by the shareholders



1 or proceeds from the sale of bonds and debentures. The
2 share capital, however, may be of an entirely nominal
3 nature and size.

4 In the cases where there is an imbalance this
5 could be corrected at the time of introducing a sliding
6 scale tax. Loans, bonds and debentures declared as
7 working capital would be accepted as such for determining
8 the tax rate, while on the other hand, the taxable profit
9 shown by such companies would be increased by interest
10 payments made and deducted for such loans, bonds, etc.

11 11. PROPERTY TAX

12 Explore ways and means of giving the Municipali-
13 ties additional revenues, including a cut into the
14 proceeds of the general income tax to enable them to do
15 away with property taxes.

16 Property taxes generally do not tax according
17 to the ability to pay. As far as homeowners are concerned,
18 the size of their homes may to some degree reflect their
19 ability to pay. However, the fact that property taxes
20 are levied regardless of the fact of whether a mortgage
21 exists and of what size, entailing interest charges,
22 destroys nearly all of its qualities in this regard.

23 As far as business properties are assessed for
24 property taxes, they are completely useless for achieving
25 taxation according to the ability to pay. Some businesses
26 require much property, others little or practically none.
27 It is submitted that property taxes are outdated and
28 generally proof of a backward taxation system.

29 Some thought may be given to legislation
30 providing that any savings of property taxes, if reduced



1 or abolished, are to be passed on in a reduction in
2 rentals charged by landlords to their tenants, at the time
3 of removal of the property tax.

4 12. CAPITAL GAIN TAX FROM REAL ESTATE

5 Make capital gains from real estate generally
6 taxable, reserving the income derived from such tax to the
7 Municipalities, or, where such are not existent, to the
8 Provinces.

9 Capital gains from real estate are largely
10 dependent on improvements brought about by works financed
11 from municipal funds. A capital gain tax is, for this
12 reason, justified. Two factors may influence the rate
13 structure. One is the time during which the property was
14 held and the other the percentage of profit made.

15 The higher the percentage of profit, the higher
16 the rate. This basic rate would then be subject to
17 reductions according to the length of the time during
18 which the property was held. Profits realized in a short
19 time will be subject to the maximum rate applicable
20 according to the percentage of the profit.

21 When determining the profit made a taxpayer
22 should be allowed to add to his purchase price an amount
23 offsetting the decrease in purchasing power of the capital
24 involved during the time the property was held according
25 to the remarks in the paragraph, "Investment Income".

26 Provisions should also be made to allow
27 additions to the purchase price of any expenses incurred
28 on the property by the taxpayer which he could not deduct
29 from his taxable income. However, in the case of private
30 homes, such expenses would be deemed to have been



1 deductible, if only a net income (consisting of a per-
2 centage of a difference between market value and mortgage)
3 as outlined in the paragraph "Capital Investment in Homes"
4 were added.

5 Any improvements made which exceed normal care
6 and maintenance would have to be added to the purchase
7 price.

8 In cases where such capital gains made are
9 subject to the ordinary income tax, it should be stated
10 that the claim of the municipalities to the capital gain
11 tax proceeds any claim of the Federal Government out of
12 the income tax act. A taxpayer, seeing himself subject
13 to both claims would then have the right to deduct from
14 the ordinary income tax due to the Federal Government
15 the amount of capital gain taxes already paid, restricted,
16 of course, to the additional income tax due to the
17 Federal Government on account of its claim to include
18 the capital gain made in the ordinary taxable income.

19 Capital gain taxes are generally due at a time
20 when the taxpayer has cash on hand (that is, after a sale)
21 and therefore not too difficult to manage. Unrealistically
22 high rates lead here, as well as in any other tax field,
23 to all manner of tricks to evade the tax. According to
24 my experience, the maximum rate should not exceed 25%
25 of the taxable income to avoid most of the dangers.

26 Property may, for instance, be held by a limited
27 company and change hands through the sale of its shares.
28 It is not too difficult to word a tax act so as to cover
29 capital gains realized by this manner and not shown at all
30 through a transfer of property at the Land Titles Office.



1 Special problems arise in the case of subdivi-
2 sions of farm land. Gradual sales of part of a farms'
3 area makes farm buildings gradually useless and worthless.
4 A farmer has to be allowed to write off the value of such
5 buildings as the area they used to serve is reduced.

6 13. MUNICIPALITIES, PROVINCES, DOMINION

7 Institute and follow policies which in the long
8 run will put municipalities in the first, Provinces in the
9 second and the Federal Government in the third places as
10 far as their duties and their tax revenues are concerned.

11 At the present time we have a situation exactly
12 opposite to what is stated above.

13 It is submitted that at the time it was necessary,
14 appropriate and in the interest of Canada to have tax
15 priorities as we know now. A certain ground work had to
16 be done. The state of development of the various parts
17 of the country differed at that time far too much to make
18 it possible for certain parts of Canada to play their part
19 in building this groundwork (railways, highways, etc.)
20 entirely independently. It is my opinion that we have
21 passed this stage to a large degree. More local administra-
22 tion strengthens the sense of responsibility of the people
23 in charge of it and of the population in general who,
24 through the various means of a democracy, make the
25 decisions. The results are better value for our tax
26 dollar. In this connection, it may be noted that the
27 Glassco Commission seems to have established, for instance,
28 that the Federal Government spends a sum of \$200,000,000.00
29 yearly for travelling costs of its civil servants. It
30 would appear that such expenditures could easily be cut



1 by 75% in all cases where matters looked after by the
2 Federal Government were shifted to Provincial administra-
3 tion.

4 Although I realize this to be wishful thinking
5 at this moment, and would require major constitutional
6 changes, it is my opinion that a desirable state of affairs
7 would be if Federal, provincial and municipal duties were
8 rearranged so as to have their costs adequately covered
9 by a tax system leaving approximately 45% of the nation's
10 tax income to the municipalities, 30% to the Provinces
11 and 25% to the Federal Government.

12 14. ADVISORY TAX BOARD

13 Have the scope of the advisory tax board
14 suggested by the Lawyers and Chartered Accountants
15 Associations enlarged so that this board studies and
16 establishes continuously the maximum tax burden which may
17 be imposed on individuals and corporations without harming
18 our economic development and defeating its purpose.

19 Such findings of an independent body of experts
20 in the field would, in my opinion, be a valuable guide
21 to Federal and Provincial Parliaments and municipal bodies.
22 Failing to fulfil this function it would at least act as
23 a guide to interested voters, when a new election comes
24 around, as to the feasibility of certain promises by
25 certain politicians at such times. Such a body would, in
26 short, be something to refer to by anybody who tries to
27 make us understand that a Government, as well as an
28 individual, has to shape its actions according to what
29 it can afford and not what might appear to be desirable
30 or even, as we are often inclined to feel, necessary.



1 15. TAX TREATIES

2 Explore the possibilities of a tax treaty with
3 Switzerland by keeping in mind that a special advantage
4 may be gained which would help to increase the flow of
5 mortgage capital from Switzerland to Canada.

6 Based partly on the special conditions pre-
7 vailing on the Swiss money market, first mortgages command
8 in Switzerland, over a long period of time, a return of
9 only $3\frac{1}{2}\%$. Our rate is, as we know, just double this
10 amount and only a little below for Government guaranteed
11 (NHA) mortgages. That is a tremendous difference.

12 Differing from many other countries, our land
13 registry system, in many of the Provinces, is simple and
14 dependable, which is important to an investor.

15 The influence foreign mortgage funds can
16 exercise in our economy, is negligible. Add to this that
17 Switzerland, due to her size and foreign policy, is probably
18 the country where the least influence ever will be
19 exercised.

20 Switzerland is, nevertheless, a relatively
21 important financial center, where large funds can be made
22 available. As far as mortgage funds are concerned, the
23 fact that we stabilized our dollar may be of importance.

24 Canada never entered into a tax treaty with
25 Switzerland. I was informed by a reliable source that
26 Swiss efforts to come to such an agreement met with little
27 interest from Canada. There are, of course, very few
28 Canadian investments in Switzerland compared to Swiss
29 investments in Canada. Any concessions made by Canada
30 in such a treaty would, therefore, in all probability,



1 afford greater benefits to Canada, measured in francs,
2 than to Switzerland.

3 The absence of a treaty is generally not
4 conducive to Swiss investments. Swiss investments would
5 be preferred over investments from other sources where
6 undue influence in our country's affairs are feared.

7 One factor may also have been overlooked when
8 assessing the situation. Swiss tax acts make mortgages
9 (that is, their capital as well as earnings) taxable in
10 the hands of the mortgagee at his domicile. This is
11 contrary to principles prevailing in a number of other
12 countries.

13 When negotiating tax treaties with other
14 countries, Switzerland found herself under pressure in
15 her efforts to upholding this principle. She then
16 generally agreed to make a concession in this regard,
17 abolishing this tax burden from Swiss taxpayers holding
18 mortgages in a country with which Switzerland entered
19 into a tax agreement. It would appear, therefore, that
20 there should not be any difficulty having the same clause
21 inserted in a treaty with Canada. This would make
22 investment of Swiss funds in Canadian mortgages that
23 much more interesting and, provided one agrees with the
24 idea that this is desirable, to the advantage of our
25 economy.

26 To all of this I may add that my knowledge of
27 details of our tax act is somewhat restricted to the one
28 gained as a taxpayer.

29 Unfortunately, the time allowed for these
30 submissions is rather short and the time available to me



1 further restricted by the fact that I have to go abroad
2 on the 23rd of this month and stay away for about five
3 weeks. I would otherwise have tried to find an expert
4 to check into all details. It may be, therefore, that I
5 have erred in some details, especially with regard to
6 more recent changes in the tax act which may have been
7 made.

8 Should this be the case, please accept my
9 apologies. I trust that the members of your Commission,
10 being all experts in this field, will, without much effort,
11 be able to locate such errors and I am quite willing to
12 have parts of the submission based on such erroneous
13 premises stricken out.

14 ALL OF WHICH IS RESPECTFULLY SUBMITTED.
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ROYAL COMMISSION ON TAXATION

HEARINGS

HELD AT

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ALBERTA

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SUBMISSION OF
ALBERTA WHEAT POOL
TO THE
ROYAL COMMISSION ON TAXATION
AUGUST 1963

SUBMISSION OF THE ALBERTA WHEAT POOL

TO

THE ROYAL COMMISSION ON TAXATION

AUGUST 1963

To Kenneth LeM. Carter Esq., Chairman
and the Members of the Commission.

Honourable Sirs:-

PREFACE

The Alberta Wheat Pool, on behalf of its 50,000 members, appreciates the opportunity of contributing to a study on taxation through presentation of a brief to the Royal Commission on Taxation.

The Pool was formed in 1923 in a time of great economic stress, in response to grain producers' demands for an orderly marketing system.

The organization holds as its objectives:

To own and operate an efficient and financially sound grain handling and seed marketing system on a co-operative basis which will offer producers the highest standard of service at the lowest possible cost and provide them with fair and equitable treatment;

To give leadership in shaping grain marketing policies on both the national and international levels in the best interests of grain producers, keeping in mind their need for stabilized prices and economic security;

To provide sound and vigorous representation on matters affecting the social and economic position of the farming industry and to make every effort to secure for agriculture the returns and the recognition it is entitled to as a basic industry of the nation;

To provide accurate information, to farm people, on all matters vital to the welfare of agriculture; and

(ii)

To assist in the development of the co-operative movement in the firm belief that it can offer farm people service, savings and protection obtainable in no other way.

Service to its members is the primary purpose of the Alberta Wheat Pool.

The Alberta Wheat Pool is an excellent example of democracy in action. Its government and control rest in the hands of its 50,000 member-owners. At the annual meeting, normally extending over a period of ten days, delegates elected by all farmer-owners review the business of the previous year and formulate the policies to be followed by the Pool for the coming year. The 1962 Annual Meeting directed specific attention to the taxation question resulting in the presentation of this submission.

The purpose of this brief is to present an objective analysis of the co-operative position in the national economy, with particular reference to the Alberta Wheat Pool. Attention will primarily be focused on several areas of misconception in so far as the question of co-operative taxation is concerned.

Firstly, the idea that co-operatives "are really no different from other businesses" represents a common misunderstanding behind the attack to change methods of taxation as they apply to these organizations. For this reason, it is necessary to consider some of the history, theory and philosophy of co-operation, in spite of the somewhat tedious nature of the task. A section of this brief dealing with these items is included so that some information can be provided to show the very important and basic differences between co-operatives and other businesses.

To further illustrate that such differences exist and that they are related to tax legislation, a section dealing with tax treatment of co-operatives in other countries is also included. This section indicates a general world-wide unanimity in tax treatment of co-operatives, in universal recognition

of their worth to society. If anything, this comparison reveals that less recognition of this fact is accorded co-operatives through Canadian Tax Law than in other countries of the world.

In order to analyze more completely the position of co-operatives in the economy with reference to tax legislation, it is also necessary to consider various contributions made by these organizations. Subsequent sections of the brief indicate that because co-operatives in this country are financed, controlled and owned by Canadians, and that the benefits of such ownerships accrue to Canadians, these organizations make a contribution to the maintenance of Canadian ownership and alleviate balance of payments problems which are currently serious trouble spots in the economy. In addition, co-operatives perform an important regulatory function as a counter force to possible abuses which may arise from concentration of power in service and manufacturing industries. Even though orderly marketing of grain is now an accomplishment, the continuing presence of the Pool has no small influence in maintaining an equitable method of grain handling for farmers. Furthermore, the Pool continues to make substantial public service and economic contributions which are available both to members and non-members, over and above what they could obtain elsewhere. These contributions are also described in this brief.

Because co-operatives not only provide such benefits at the individual level but often provide services that are in accord with those performed by governments themselves (for example, they provide similar services to marketing boards in some cases, etc.) these facts merit consideration in assessing the tax situation.

A second area of misunderstanding is that relating to co-operative growth. There are those who would argue that

co-operatives have an unfair advantage over other forms of business in that they are able to borrow back a portion of the annual patronage dividend to be retained in the form of reserves. It is further argued that because of these so called advantages, co-operatives will eventually take over from many other businesses. In answer to these criticisms, this brief places co-operative growth in the proper perspective, indicating that in most cases co-operatives represent a very small portion of total volume of business in each of their respective fields. It is also established that co-operatives have grown for much the same reasons as have other efficient organizations. There is no evidence that co-operative growth can be attributed to particular tax treatment, nor is there any evidence that many other types of business will be displaced because of this growth.

In the case of the Alberta Wheat Pool, which has played no small part in correcting abuses suffered by grain producers during the early period of grain marketing in this country, the share of business was largely determined at inception when farmers registered their dissatisfaction with existing marketing methods through support of co-operative enterprise. The Pool market share today is not too much different from that established in the late 1920's. It would appear, therefore, that there is very little relationship between the size of the market share and methods of taxation.

As further evidence that this is so, the brief provides an analysis of Alberta Wheat Pool capital spending, indicating that funds for this purpose have largely come from sources other than those set aside for members' reserves.

Yet a third misconception relating to the question of co-operative taxation concerns equity. An economic-analysis is presented on the nature of the patronage dividend, indicating that

inequity relating to co-operative taxation as against corporate taxation is more imaginary than real.

It is contended by the Alberta Wheat Pool that any tax program, of necessity, must consist of principles of economic and social justice and must also be consistent with long range economic planning. Only in this manner may the burden of government services be equitably dispersed among the various individuals in segments which contribute to the nation's wealth. It is hoped that the presentation of this brief will, in so far as tax problems are related to the co-operative field, help contribute to this objective.

SUMMARY

1. This brief has endeavoured to point out and emphasize the important and distinct differences between businesses carried on under co-operative principles and other forms of business. It is submitted that tax legislation should recognize that co-operatives are non-profit organizations insofar as member business is concerned and that in respect of such business they receive no taxable income.
2. It follows that the principal of taxing revenue of the co-operative in the hands of the members should continue to apply and that only such portion of a co-operative's revenue which is not allocated as patronage dividends in any form and is retained by the co-operative should be considered as "income" of the co-operative subject to tax.
3. It is submitted that there is no valid reason to impose a tax penalty upon a co-operative because members see fit to loan to the co-operative funds which have been allocated to them as patronage dividends. This brief has established that such procedure provides no competitive advantage to the co-operative. Any alteration of the taxation rules which now permit this practice would not only be discriminatory but would also endanger the continuing operation of co-operatives which have operated on a revolving membership basis for many years.
4. Finally, because of the substantial economic and social contributions made by co-operatives, it is recommended that the minor concessions granted to these organizations, such as the three year tax exemption for new co-operatives, be continued. These are not at all inconsistent with concessions granted to other forms of business because of important contributions they may make to the national economy.

All of which is respectfully submitted.



G. L. Harrold,
President, Alberta Wheat Pool

THE HISTORY, DIVERSITY AND PHILOSOPHY OF THE CO-OPERATIVE MOVEMENT IN CANADA

1. When studying the effect of taxation on any business enterprise and the resultant consequence to the nation as a whole, it is entirely necessary to fully comprehend the principles which govern that particular form of organization and the role that it plays in the national economy. In the case of individual proprietorships, partnerships, and conventional corporations, this does not present any particular problem. However, in the case of co-operatives there seems to be a misunderstanding and often a misinterpretation of the motives for which they have come to exist. The following paragraphs are therefore submitted with the hope that some clarification on this question will result.

2. That the ideals laid down by early co-operators have found practical expression is evidenced by the success of co-operative organizations not only in Canada, but throughout the world. This clearly indicates the acceptance of co-operative principles by millions of persons. The co-operative ideal is not simply an expedient method of procuring for members a profit resulting from an exchange of goods and services. According to Casselman, the ideal is concerned also with human relations and involves universality, democracy, liberty, fraternity, unity and self-help. The only ideal bearing upon the business enterprise exclusively is that of economy. (1) It is little wonder that the acceptance of such a concept has been so marked. The common man has a deep feeling of satisfaction in the movement, not only because it operates to his advantage but also because he played an active part in laying its foundation and its evolution. (2)

(1) Casselman, Paul Hubert - The Co-operative Movement and Some of Its Problems; Philosophical Library, New York; 1951; pages 1 and 2.

(2) Ibid., page 1

3. The philosophy of the co-operative movement rests basically on the principles evolved by the Rochdale Pioneers, a group of English weavers who rebelled against the critical conditions of their time, the long hours, low wages, slum living and hunger, thus forming the first successful co-operative society in 1844. (3) Fundamentally, these same principles are applied in our present environment in the governing of co-operative business. The success of the movement has depended upon them. They are attached in Appendix A.

4. It would be incorrect to assume however that co-operatives today accept the Rochdale Principles in total. Many of the uninformed public believe that this is the case which perhaps has perpetrated some of the misunderstandings prevailing in the minds of those who advocate measures which would act to restrict co-operative trading. Co-operation is a phase of the capitalistic free enterprise system and not foreign or antagonistic to it. A better understanding of these concepts by both co-operators and ordinary businessmen would serve to lessen the bitter controversies which often develop between these groups. (4)

5. The hard core of principles applicable to all co-operatives today may be stated as (1) service at cost ^{*}, (2) democratic control, and (3) limited returns upon equity capital.

(3) Hannam, H. H. - Co-operation, The Plan for Tomorrow Which Works Today; Tenth Edition, 1949; page 7

(4) Koller, E. Fred - Co-operatives in a Capitalistic Economy; Abrahamsen, M. A. and C. L. Scroggs; Agricultural Co-operation, Selected Readings; University of Minnesota Press, Minneapolis; 1957; page 66.

* Definition

Service at cost means a function is performed by the co-operative organization for the individual at a charge only in the amount necessary for the co-operative to effect the service. This cost does not include a profit return for the organization.

These three principles appear as basic to all types of co-operative institutions whether they be for marketing, purchasing, or providing services, and whether they be set up by urban or rural consumers, producers, businessmen, or other interested parties. (5) Other principles are often described by the term "fringe" as they lie somewhere in the realm between principle and practice. Nevertheless, the combination of both sets has, over the years of evolution, contributed jointly to the economic and social factors which were deemed so necessary by early proponents of the co-operative ideal.

6. Co-operation is a means of organizing the members of an industry to conduct and adjust its affairs in the common interest of the group. In the case of marketing, it is an association of firms for business purposes - an economic institution through which economic activity is conducted in the pursuit of economic objectives. (6) One has to look only as far as the wheat pools of the Canadian prairies to encounter a practical example of such a situation. The farmer-entrepreneur, by himself, is engaged in individual economic free enterprise. However, when he combines with his neighbour in the marketing of his produce, they jointly agree to function through the co-operative process and therefore act as an economic team in relation to their co-ordinated activity. Together, the multitude of prairie grain producers who are members of the wheat pools constitute an economic institution of sovereign economic units.

(5) Schaars, Marvin A - Basic Principles of Co-operatives: Their Growth and Developments; Abrahamsen, M. A. and C. L. Scroggs; Op cit., page 191

(6) Phillips, Richard - Economic Nature of the Co-operative Association; Abrahamsen, M. A. and C. L. Scroggs; Op cit., page 142.

7. "Although it is descriptively correct to say that a co-operative association is a business organization owned and controlled by its patrons and operated for their benefit as patrons, such a statement contributes nothing to the understanding of the economic structure of the co-operative It is not possible 'to organize an economic system from the standpoint and for the benefit of the patron', as the controller of a given factor of production. It is possible for firms jointly to organize and operate a common plant with the idea of maximizing the economic returns to each of the individual associated firms." (7)
8. A marketing co-operative for example, is but an extension of the many individual producers who operate it. The fact that the co-operative may acquire through their patronage a surplus of gross receipts over total initial payments does not mean that the co-operative itself earns a profit. A surplus which accrues to the organization in the course of its transactions does not belong to the organization as such, but to the patrons in proportion to their patronage. The patrons are stimulated by the profit motive, but the co-operative organization itself is not.
9. Another way of making this point is to use the distinction between a "firm" and a "plant" as these terms are used by economists. A firm is a whole business organization, owned and controlled independently of other firms. A firm may have one or more plants, for a plant is only a set of facilities for conducting some branch of the firm's operations. With regard to a co-operative, Phillips says "...when two or more economic units co-operate with respect to some function or activity that is integrally related to their individual economic operations, the result is not a new firm; instead it is a common economic plant." (8) One would not wish to see an income tax which

(7) Phillips, Richard - Op cit., page 144

(8) Phillips, Richard - Op cit., page 143

was levied against both the firm and its plants for there are not two flows of income here but only one. Plants, including co-operatives are non-profit organizations in the sense that their purpose is not to make income for themselves but rather for the firms or individuals who own them.

10. /) "The stated objective of most co-operatives is to perform a given service or function at cost in order to increase the returns or profits of its members. Often the rendering of a more complete or satisfactory service is involved. In the case of a purchasing association the furnishing of a higher quality product is often considered. These objectives are, however, phases of the objective of obtaining a specific service or services at cost." (9)

11. Reviewing the position of the co-operator, it must be clearly stated that primarily, he utilizes the co-operative method in order to improve his own economic position. He is motivated by a profit stimulus in the case of marketing, or by a saving stimulus in the case of merchandising. Considerations of economic gain from patronage dividends, limited return on his invested capital, better service, fairer treatment, reliable merchandise, a voice in management and the like are nevertheless important to him in the sense that he knows that such tangible and intangible attributes bring to him the assurance that his profit motive will be satisfied. These considerations illustrate the fact that the farmer expects some form of return from his participation in the co-operative which is not inconsistent with the primary motivation in private enterprise.

12. "It can be said that farmers aim to make farming more profitable and that consumers attempt to maximize their real incomes. . . . Few Persons, especially farmers, look to the co-operative as a reformistic movement, as an agency to overthrow capitalism, or as an

(9) Stokdyk, E. A. - Co-op's Economic Objectives; Abrahamsen, M. A. and C. L. Scroggs, Op. cit., page 69

instrument to establish what has been called a co-operative commonwealth." (10)

13. An important source of confusion in the thinking about the nature of co-operative associations is the failure to distinguish between legal and economic concepts. The difficulty arises therefore, when co-operatives are treated in the same manner as ordinary corporations. While it is technically correct to speak of the co-operative plant and of co-operating firms, it is not correct to speak of the co-operative firm. (11) In spite of this difference, co-operatives are treated in exactly the same manner as joint stock concerns under the Income Tax Act. Some suggestions as to an alternative and more appropriate treatment are presented elsewhere in this submission. The present arrangements, by failing to distinguish legally between co-operatives and ordinary businesses, aggravate misunderstanding of the nature of co-operatives.

14. It is submitted that the Commission should give the utmost consideration to the true legal position of co-operatives. They were cast in the corporate mold partly because legal precedents provided no other legal device and partly because the co-operative business association was commonly conceived to be nothing more than a modified form of the ordinary business corporation, and, therefore, adequately explained by the general theory of the firm. (12) The treatment of co-operatives in Sweden, described elsewhere in this submission, provides an instructive example in that co-operatives are legally recognized as "economic associations", something distinct from ordinary businesses.

(10) Schaars, Marvin A. - Op cit., pages 185 and 186

(11) Phillips, Richard - Op cit.; page 143

(12) Robotka, Frank - Op cit.; page 131

15. From the time of its conception the co-operative movement has been subjected to sharp criticism, opposed by established businessmen and has been forced to struggle under the burdens of misgiving and apprehension. If one studies the conditions which prevailed prior to the formation of nearly every co-operative since 1844, and even to a greater extent before that time, dating to the period of Robert Owen, one will find that co-operatives were formed in times of economic stress because no other system of private enterprise then in existence provided a satisfactory means of building a fair, just, and equitable structure in which the participants could be assured of unbiased treatment.

16. Perhaps the most pointed example of the type of environment which seems to prevail prior to the formation of co-operative ventures is found in the conditions prevalent in the Canadian grain trade around the turn of the 19th century. During this early developmental period, facilities for marketing grain in Western Canada were not extensive. The monopoly position enjoyed by the Canadian Pacific Railway, as the only transportation available for grain movement, perpetrated monopolistic concessions to grain elevator firms in order to have shipping points equipped with standard elevators as a means of relieving the seasonal strain upon its limited rolling stock. (13) "The farmer was acutely aware of the fact that, because of the agreement between railway and elevator companies, he had no alternative but to ship his grain through, or sell his crop to the latter, who had come to form a more or less complete combine." (14)

17. No regulation of grain dealers existed. The railways refused to allow farmers to load their grain directly over the platform at any point where there was a standard elevator, leaving no alternative for

(13) Patton, Harold S. - Grain Growers' Co-operation in Western Canada; Harvard Economic Studies; Harvard University Press, 1928; page 18

(14) Ibid., pages 18 and 14

the producer but to accept the terms of the line companies as to prices, grades and dockage. There was a possible alternative for the producer in selling to commission merchants, but there was no guarantee of the good faith of firms and farmers knew little or nothing about the technicalities of grain marketing. In such a situation, it was inevitable that many abuses such as low grading, high dockage, mixing and even actual stealing of wheat should exist. (15)

18. It is history now that over the following twenty-odd years, legislative reforms and attempts to stabilize marketing procedures in the grain trade in order to provide fair and impartial treatment to producers, failed to meet with general satisfaction. From these chaotic conditions emerged the co-operative wheat pools.

19. There can be little doubt that the co-operative contribution to the economic nature of our time has produced a beneficial influence as between competing types of organizations. Co-operative competition has been one of the most effective tools employed to curb monopolistic abuses. (16) The prairie wheat pools are the practical example of this expression.

20. It has been deemed in the interest of public policy for governments to encourage the formation of co-operative societies. The disastrous experiment in government ownership of the Manitoba interior elevators (17) prejudiced the Alberta and Saskatchewan governments against any similar endeavour. Instead, these latter provinces encouraged the farmer-organizations to form their own co-operative elevator associations, promising financial aid for capital

(15) Mackintosh, W. A., - Agricultural Co-operation in Western Canada; Queen's University, Kingston; The Ryerson Press, Toronto; 1924; pages 10 & 11.

(16) Stokyk, E. A. Op cit., page 68

(17) Mackintosh, W. A. Op cit., page 39

requirements. Such a policy was clear endorsement of the co-operative marketing concept by government.

21. Repeatedly, co-operatives have taken the lead in the introduction of improved techniques of production and distribution which have served to reduce costs and improve returns of their members (18). The practice of distributing dividends to customers has spread from the wheat pools to private companies to the extent that this practice has become quite general. Another example is found in the case of the Alberta Wheat Pool's fertilizer enterprise which was initiated only four years ago. (19) Although the Pool began with the proposal to sell at established competitive prices, price cutting by competitors ensued which gave all purchasers of fertilizer a substantial saving. "The unexpected benefits of the Pool's small effort provide an illustration of the useful regulatory effects of co-operative activity." (20)

22. Still a further example in this regard is appropriately illustrated by the recent establishment of Interior Feeds Limited, a subsidiary of the Alberta Wheat Pool, which resulted in a substantial improvement for the producer in the methods of handling feed grains in the B. C. block of the Peace River region.

23. "To perform their role in the economy most effectively, co-operatives themselves need the stimulation of private business competition. Successful co-operatives owe a great deal to their competitors. Efficient competitors present a continuous challenge to co-operative management to try to render better service at lower costs. The reciprocal competitive action of efficient co-operatives and efficient private business firms is a most desirable goal for the economy. It is a means of assuring to farmers and others a more effective and productive economic system than one in which government regulation plays a larger part." (21)

(18) Koller, E. Fred, Op cit., page 66

(19) Alberta Wheat Pool, Annual Report; 1962, page 19

(20) Ibid., page 19

(21) Koller, E. Fred, Op cit., pages 67 and 68

24. The growth of the co-operative movement in this country has been largely due to the farmer's struggle to improve his bargaining position. Because of this, the greatest development of co-operatives has been in rural areas, particularly in marketing farm products and purchasing farm supplies. (22) Nevertheless, the co-operative movement in Canada began before the turn of the nineteenth century in Stellarton, Nova Scotia, with the formation of a co-operative store. A consumers' co-operative society was founded in 1906 at Sydney Mines, Cape Breton, and in the beginning met with all the opposition people could muster against it. (23) This small beginning, counted as of little significance at inception, had achieved by 1929 an annual business turnover amounting to some \$1,700,000. Simple coal miners had demonstrated democracy in action through the co-operative ideal, thus enhancing their own social and economic well-being.

25. Despite the fact that co-operatives engaged in the marketing and purchasing of farm products at present make up the largest share of co-operative activity in Canada, (24) co-operative enterprise is comprised of a variety of activities. Sales of supplies and merchandise, petroleum products, feed and fertilizer and food products are maintaining a steady, if small, portion of the total market. Service co-operatives such as credit unions, utility companies, medical schemes, and housing projects are also in evidence.

(22) Canada Department of Agriculture, Co-operatives in Canada; Publication 1119, 1962; page 7

(23) Coady, M.M. - Masters of Their Own Destiny; Harper and Brothers Publishers; New York and London; 1939; page 37

(24) Fortier, R. - Co-operation In Canada; Canada Department of Agriculture, Economics Division 30th Annual Summary, 1961. This publication indicates that of the total value of business done by all types of co-operatives in 1961, \$1,470 million, total sales of farm products by co-operatives amounted to \$1,000 million.

Other important services include grazing, artificial breeding, seed cleaning, cold storage, transportation, and water works associations. (25) Fishermen's and Eskimo co-operatives are further examples of the diversity which may be applied in gathering together a group with common interests to effect a service of mutual benefit to all.

26. Such an illustration of the many fields in which co-operative activity is found clearly indicates that such organizations suit the small producer or consumer to the best advantage. The farmer, in association with his neighbours, can achieve marketing economies in a collective manner which would not be afforded him individually. The fisherman, the credit union member, and the user of a utility all benefit in the same manner. Co-operatives exist because the average member of society wishes to enjoy the freedom a democracy affords which is so rightfully his but also which he often cannot achieve by himself. In this age of equality it would be foreign to interests of society to restrict the attainment of this ideal. (26)

27. It is recognized that the Commission is faced with a multitude of problems and considerations in the study of taxation. From every part of the economy representations have been and will be

(25) Ibid., page 12

(26) The Pool consists of 50,000 grain and seed producers who have voluntarily pooled their resources to acquire the plant and equipment necessary to receive, store, process and ship their product. This product is produced in the heart of a great continent and must compete in the markets of the world with grain grown much closer to seaboard. If it is to be competitively priced and still return a reasonable standard of living to the producer, as little as possible of the selling price should be drawn off by others. It is, therefore, highly desirable that elevator facilities should be owned and operated at cost by the producers. The Pool is a highly successful experiment in self-help. It offers farmers protection afforded them in no other way.

made with respect to the factors involved in assessing the incidence of taxation on a particular portion of the economic system. It is our intention in submitting some reference material regarding the philosophy and diversity of co-operative activity to point out that co-operatives are a perhaps small, but extremely important sector, and that the well-being of some millions of average persons depends essentially on the unrestricted and uninhibited pursuit of the co-operative ideal.

28. It has been demonstrated that the co-operative is not an individual firm in the same sense as a joint stock concern. It has been indicated that much of the confusion surrounding the exercise of co-operative activity arises because co-operatives are treated similar to "private" business. It is therefore submitted that the Commission should endeavour to consider the authentic economic, legal, and social differences between co-operatives and profit concerns when evaluating the effect that further taxation of co-operatives would have on the individual co-operative entrepreneur.

THE TAXATION OF THE INCOME OF CO-OPERATIVES IN
CANADA, THE UNITED STATES, BRITAIN, AND SWEDEN

29. The purpose of this section is to describe the tax treatment of co-operatives in the United States, Britain, and Sweden and to compare the situation in those countries with that in Canada. This material is provided to supplement the historical information of the preceding section and to indicate the nature of regulations affecting co-operative taxation in other countries.

30. Some difficulties arise in the comparison of the taxation of co-operatives in different countries. First of all, the concept of a co-operative varies somewhat among countries. However, in spite of variations of detail, the following basic features characterize co-operatives in each of the four countries:

- (1) The shareholders or members of the organization are those who are the customers or suppliers of the organization.
- (2) Each member or shareholder has but one vote in a general or shareholders' meeting, regardless of the size of his equity in the organization.
- (3) Except for a possible nominal fixed or maximum rate of interest on his equity, the shareholder receives surpluses earned by the organization in proportion to his patronage rather than in proportion to his equity in the organization.

31. A second problem of comparison is that the relative importance of co-operatives within the economy varies from country to country. Therefore, a simple comparison of legal positions provides only incomplete knowledge of the total economic effect of different arrangements. In general, it may be suggested that the relative importance and types of operations of co-operatives in the United States are most nearly similar to those in Canada, so the tax treatment of co-operatives in the United States ought to be the most relevant to Canadian conditions.

32. Ambiguity may be avoided if a few words and phrases are defined at the outset:

"Taxpayer" will be used to describe any entity against which income tax is levied, whether the entity be an individual person, a private company, or a co-operative.

"Private company" will mean a limited liability corporation owned by shareholders to whom profits of the company are distributed in proportion to shares held.

"Reserve" will mean a portion of the profits or surplus not distributed to members or shareholders of a co-operative or private company.

"Legal reserve" is a reserve required by the statute under which a co-operative is chartered or by its articles of incorporation.

"Statute" means any instrument of law passed by the legislature or by the executive under authority of the legislature.

Tax Treatment of Co-operatives in Canada

33. Income tax was first levied in Canada in 1917 under the Income War Tax Act. This Act made no provision for special treatment of co-operatives; in fact there was no mention in it of co-operatives at all. This left some doubt as to the applicability of the Act to co-operatives, which were organized on a non-profit basis.

34. The situation was clarified by two decisions in the Supreme Court of Canada. In *Fraser Valley Milk Producers' Association v. Minister of National Revenue* (1929) S.C.R. 435, it was held that surpluses which were distributed in proportion to equity were profit similar to the profit of private companies and should be taxed accordingly. In *Minister of National Revenue v. Saskatchewan Co-operative Wheat Producers Limited* (1930) S.C.R. 402, reserves which were retained from proceeds of selling the shareholders' wheat but which were credited to the specific grower and which could only be given back to shareholders

in proportion to the amount each had contributed to the reserve were held not to be income of the organization, and therefore not assessable for income tax.

35. Partly as a result of these cases, Parliament in 1930 passed an amendment to the Income War Tax Act, adding subsection (p) to section 4 which provided that "the following income shall not be liable to taxation":

- 4(p) The income of farmers' dairymen's livestockmen's, fruit growers', poultrymen's fishermen's and other like co-operative companies and associations, whether with or without share capital, organized and operated on a co-operative basis, which organizations
- (a) market the products of the members or shareholders of such co-operative organizations under an obligation to pay to them the proceeds from the sales on the basis of quantity and quality, less necessary expenses and reserves;
 - (b) purchase supplies and equipment for the use of such members under an obligation to turn such supplies and equipment over to them at cost, plus necessary expenses and reserves.

Such companies and associations may market the produce of, or purchase supplies and equipment for non-members of the company or association provided the value thereof does not exceed twenty per centum of the value of produce, supplies or equipment marketed or purchased for the members or shareholders.

This exemption shall extend to companies and associations owned or controlled by such co-operative companies and associations and organized for the purpose of financing their operations.

36. Various difficulties arising from section 4(p) gave rise to an Order-in-Council dated November 16, 1944, which stated

The Committee of the Privy Council have had before them a report dated 10th November, 1944, from the Minister of Finance, representing that doubt has arisen as to the effect of the Income War Tax Act and the Excess Profits Tax Act, 1940, in the case of co-operative corporations, associations and societies both as regards the general principles intended by Parliament to be applied and the effect, in many matters of detail, of the said taxation statutes upon these co-operative organizations and their members;

and

That this doubt, both as to the general principles, intended to be applied and the effect of the aforesaid

statutes, has created serious problems in connection with the administration of these taxation statutes and a considerable measure of uncertainty in the business operations of some of the co-operative organizations themselves.

37. To deal with the matter the Order-in-Council went on to appoint a Royal Commission so

That a full public inquiry into the application of income and profits tax measures to organizations organized and operated on a co-operative or mutual basis and organizations claiming so to be organized (hereinafter referred to as co-operatives) and into the comparative position in relation to taxation under such measures of persons engaged in business in direct competition with co-operatives should be undertaken without delay.

38. After extensive public hearings this Commission made a report containing suggestions for changes in the tax law as it related to co-operative enterprise. These suggestions were, in the main, incorporated into the Income Tax Act of 1948. The basic attitude of the commissioners is summed up in the following paragraph from their report:

... Considerations of public interest do not lead us to the conclusion that co-operative associations should be given a blanket exemption from income tax while their competitors are subjected to the full burden of the current heavy rates. The considerations referred to do suggest, however, that where there is doubt as to what the income of an organization really is, the relative strength of co-operative associations and their competitors should be carefully considered to make certain that the solution finally adopted will not ruin one or the other, or unduly constrict their relative growth and development.

39. The provisions of the Income Tax Act of 1948 respecting co-operatives are largely based upon the recommendations of the Royal Commission. As these provisions are presently the ones in effect, the present law relating to the taxation of co-operatives may now be considered.

40. To describe the present income tax legislation affecting them, co-operatives must be divided into two major types. There are those which earn an income in the eyes of the law such that a tax may be levied against it, and there are those which do not.

41. For the latter group the detailed provisions of the Income Tax Act simply do not apply. Earning no income they cannot be taxed on income. The question that arises is, when is a co-operative deemed to be in this position? The basic test as to whether a co-operative is deemed to earn an income is whether it is considered merely an agent for the convenience of its patrons. This test was laid down in the case of Minister of National Revenue v. Saskatchewan Co-operative Wheat Producers Limited (1930) S.C.R. 402 at 415, as follows:

As the basis of chargeability to income tax is the operation of a trade or business giving rise to a profit, and as the association in this case in respect of the reserves assessed is merely machinery for collecting contributions from the growers, not as shareholders of the association but as subscribers to the fund, and for using those moneys for the benefit of the growers and handing them back in some form or other when no longer required, I am of the opinion that the sums assessed cannot properly be said to be "profits or gains" of the Association.

42. A criterion applied by the Exchequer Court of Canada to see whether an amount received by a taxpayer is income is to pose the following question (Horse Co-operative Marketing Association Limited v. Minister of National Revenue (1956) Ex C.R. 393 at 412):

Is his right to it absolute and under no restriction, contractual or otherwise, as to its disposition, use or enjoyment?

43. If the answer to the question is "yes," the taxpayer is taxable on the moneys received. But if the answer is "no," and the organization is bound to account for the receipts to the producers, that is, if the organization has disposed of the produce not on its own account, but on the accounts of its members, then the receipts are not income to the organization. Even reserves kept from the selling price are not income, but capital advances from its members, and hence not subject to income tax in the hands of the organization. Of course, if the case is such that the organization

purchases outright the products of its members or of others and sells them on its own account, the income derived is taxable under the provisions of the Income Tax Act whether retained or distributed.

44. A co-operative has the right, as does any person, to arrange its affairs in such a manner as to earn no income.

(Associated Growers of British Columbia Limited v. Minister of National Revenue (1956) D.T.C. 10.) Such an arrangement is feasible for a co-operative engaged in marketing or processing and marketing the produce of its members, for it can arrange to act only as an agent for its members and can remain obligated to each member to account to him for surpluses arising from the handling of his produce. For a consumer's co-operative to arrange its affairs in this manner, it would presumably have to act merely as a relay centre for orders placed by members. This is not a feasible arrangement for most retail outlets, where the need for an inventory involves the organization in the purchase of goods on its own account for sale to members at market price. The profits realized after expense on these operations are taxable under the provisions of the Income Tax Act. (Minister of National Revenue v. Davidson Co-operative Association Limited (1956) Ex. C.R. 138.)

45. If a co-operative is deemed to earn an income, it is subject to income tax at the same rate as an ordinary corporation. Section 75 of the Income Tax Act sets out the rules for computing the taxable income of a corporation, including a co-operative, which pays patronage dividends. The text of the section is as follows:

75.(1)Notwithstanding anything in this Part, there may be deducted, in computing income for a taxation year, the aggregate of the payments made, pursuant to allocations in proportion to patronage, by a taxpayer

(a) within the year or within 12 months thereafter to his customers of the year, and

- (b) within the year or within 12 months thereafter to his customers of a previous year, the deduction of which was not permitted
- (2) Notwithstanding subsection (1) if the taxpayer has not made allocations in proportion to patronage in respect of all his customers of the year at the same rate, with appropriate differences for different types or classes of goods, products or services, or classes, grades or qualities thereof, the amount that may be deducted under this section is an amount equal to the lesser of
- (a) the aggregate of the payments mentioned in subsection (1), or
 - (b) the aggregate of
 - (i) the part of the income of the taxpayer for the year attributable to business done with members and
 - (ii) the allocations in proportion to patronage made to non-member customers of the year.
- (3) Where the deduction of an amount under subsection (1) or (2) would result in the taxpayer's taxable income for the taxation year (before deduction of any amount under section 27 in respect of business losses) being less than the amount by which
- (a) 3% of the capital employed in the business at the commencement of the year exceeds
 - (b) the interest, if any, paid on borrowed moneys (other than moneys borrowed from a bank incorporated under the Bank Act or from a corporation or association described in paragraph (b) of subsection (1) of section 62) and deductible in computing his income for the year,
- the amount that may be deducted under this section is such as will leave the taxpayer with a taxable income (before deduction of any amount under section 27 in respect of business losses) equal to the excess.
- (4) For the purposes of this section,
- (a) "allocation in proportion to patronage" for a taxpayer means an amount credited by a taxpayer to a customer of that year on terms that the customer is entitled to or will receive payment thereof, computed at a rate in relation to the quantity, quality or value of the goods or products acquired, marketed, handled, dealt in or sold, or services rendered by the taxpayer from, on behalf of or to the customer, whether as principal or as agent of the customer, or otherwise, with appropriate differences in the rate for different classes, grades or qualities thereof, if
 - (i) the amount was credited

- (A) within the year or within 12 months, thereafter, and
 - (B) at the same rate in relation to quantity, quality or value aforesaid as the rate at which amounts were similarly credited to all other customers of that year who were members or to all other customers of that year, as the case may be, with appropriate differences aforesaid for different classes, grades or qualities, and
- (ii) the prospect that amounts would be so credited was held forth by the taxpayer to his customers of that year who were members or non-member customers of that year, as the case may be;
- (b) "Capital employed in the business" shall be computed in accordance with the First Schedule to The Excess Profits Tax Act, 1940, except that no deduction shall be made from capital in respect of borrowed moneys (other than moneys borrowed from a bank incorporated under the Bank Act or from a corporation or association described in paragraph (b) of subsection (1) of section 62);
 - (c) "customer" means a customer of a taxpayer and includes a person who sells or delivers goods or products to the taxpayer, or for whom the taxpayer renders services;
 - (d) "consumer goods or services" means goods or services the cost of which was not deductible by the taxpayer in computing the income from a business or property;
 - (e) "income of the taxpayer attributable to business done with members" of any taxation year means that proportion of the income of the taxpayer for the year (before making any deduction under this section) that the value of the goods or products acquired, marketed, handled, dealt in or sold or services rendered by the taxpayer from, on behalf of, or for members in of the total value of goods or products acquired, marketed, handled, dealt in or sold or services rendered by the taxpayer from, on behalf of, or for all customers during the year;
 - (f) "payment" includes
 - (i) the issue of a certificate of indebtedness or shares of the taxpayer or of a corporation of which the taxpayer is a subsidiary wholly-owned corporation if the taxpayer has in the year or within 12 months thereafter disbursed an amount of money equal to the aggregate face value of all certificates or shares so issued in the course of redeeming or purchasing certificates of indebtedness or shares of the corporation previously issued,

- (ii) the application by the taxpayer of an amount to a member's liability to the taxpayer (including, without restricting the generality of the foregoing, an amount applied in fulfilment of an obligation of the member to make a loan to the taxpayer and an amount applied on account of payment for shares issued to a member) pursuant to a by-law of the taxpayer, pursuant to statutory authority or at the request of the member, or
 - (iii) the amount of a payment or transfer by the taxpayer that, under subsection (1) of section 16, is required to be included in computing the income of a member;
- (g) "member" means a person is entitled as a member or shareholder to full voting rights in the conduct of the affairs of the taxpayer (being a corporation) or of a corporation of which the taxpayer is a subsidiary wholly-owned corporation; and
- (h) "non-member customer" means a customer who is not a member.
- (5) For the purpose of this section a taxpayer shall be deemed to have held forth the prospect that amounts would be credited to a customer of a taxation year by way of allocation in proportion to patronage, if
- (a) throughout the year the statute under which the taxpayer was incorporated or registered, its charter, articles of association or by-laws, or its contract with the customer held forth the prospect that amounts would be so credited to customers who are members or non-member customers, as the case may be, or
 - (b) prior to the commencement of the year or prior to such other day as may be prescribed for the class of business in which the taxpayer is engaged, the taxpayer has published an advertisement in prescribed form in a newspaper or newspapers of general circulation throughout the greater part of the area in which the taxpayer carried on business holding forth that prospect to customers who are members or non-member customers, as the case may be, and has filed copies of the newspapers with the Minister before the end of the thirtieth day of the taxation year or within 30 days from the prescribed day, as the case may be.
- (6) Where a payment has been received by a taxpayer in respect of an allocation in proportion to his patronage (other than an allocation in respect of consumer goods and services) the amount thereof shall be included in computing the recipient's income for the taxation year in which the amount of payment was received, and

without restricting the generality of the foregoing, where a certificate of indebtedness or a share was issued to a person in respect of an allocation in proportion to patronage, the amount thereof shall be included in computing the recipient's income for the taxation year in which the amount of payment was received, and without restricting the generality of the foregoing, where a certificate of indebtedness or a share was issued to a person in respect of an allocation in proportion to patronage, the amount thereof shall be included in computing the recipient's income for the taxation year in which the certificate or share was received and not in computing his income for the year in which the indebtedness was subsequently discharged or the share was redeemed.

46. Under Canadian law, therefore, any taxpayer may deduct patronage dividends in accordance with the above section, whether paid in cash or, with certain restrictions, credited to the members' accounts. Thus this privilege is not restricted to co-operatives. However, patronage dividends may not reduce taxable income below an amount equal to the greater of

- (a) income from non-member business, or
- (b) three per cent of capital employed in the business, less certain interest costs.

47. Subsection (6) provides for the taxation of patronage dividends as income of the recipients. They are liable to tax unless received from "consumers' " co-operatives. Briefly the theory is that in the case of marketing co-operatives, the patronage dividend is a portion of the income obtained from selling the goods. For goods purchased, but deducted as expenses by the members, the dividend represents a price reduction and therefore a lesser expense. But in the case of "consumers' goods and services, " as defined in the Act, the dividend is again a price reduction, but as the price of the goods is not deducted by the member from his own income, the dividend does not represent any increase in his net income.

48. Certain co-operatives are exempt from liability for tax under the Act, even though there is no general exemption. There is the three year "tax holiday" given to new co-operatives under section 73(1) which reads:

73.(1) No tax is payable under this Part upon the taxable income for each of the first three taxation years after commencement of its business of a corporation that commenced business on or after January 1, 1947, and that was incorporated under provincial legislation respecting the establishment of co-operative corporations for the purpose of marketing (including processing incident to or connected therewith) natural products belonging to or acquired from its members or customers, of purchasing supplies, equipment or household necessities for or to be sold to its members or customers or of performing services for its members or customers, if, during the taxation year

- (a) the statute under which it was incorporated, its charter, articles of association or by-laws or its contracts with its members or its members and customers held forth the prospect that payments would be made to them in proportion to patronage.
- (b) none of its members had more than one vote in the conduct of the affairs of the corporation,
- (c) at least 90% of its members are individuals and at least 90% of its shares, if any, are held by individuals,
- (d) the rate of interest on capital subscribed by its members or the rate of its dividends on its shares did not exceed 5% per annum,
- (e) the value of the products marketed for or acquired from, supplies, equipment and household necessities purchased for or sold to, and services performed for its customers other than members did not exceed 20% of the total thereof from all its business, and
- (f) the business carried on by the corporation was not a continuation of a previous business in which a substantial number of its members had a substantial interest, either as shareholders of a corporation carrying on the previous business or otherwise.

49. This section was suggested by the Royal Commission of 1944, which stated:

It has been pointed out to us on numerous occasions that co-operative associations are difficult to organize

and that their rate of mortality is high, especially in their earlier years. They are not in a position to attract capital for investment purposes, except in small amounts. Moreover, they are apt to find it difficult to finance the employment of the necessary managerial personnel. In addition, there is a pronounced tendency to organize co-operatives in times of economic stress. We are, therefore, of the opinion that in the public interest co-operative associations, upon consent of the Minister, should be exempt entirely from income tax during the first few years of their operation.

50. It will be noted that in the subsequent legislation, the proviso for consent of the Minister was not inserted.

51. Also certain types of co-operative organization, especially those of an educational nature, can receive an exemption by virtue of section (6) 62 (i) which grants an exemption to

a club, society or association organized and operated exclusively for social welfare, civic improvement, pleasure or recreation or for any other purpose except profit, no part of the income of which was payable to, or was otherwise available for the personal benefit of, any proprietor, member or shareholder thereof.

Also credit unions and mutual insurance corporations which receive premiums wholly from the insurance of churches, schools or other charitable organizations are exempt.

The United States

52. In the United States the treatment of co-operatives under the Federal income tax has not been the result of a definite systematic study, but has merely evolved under successive taxation statutes.

53. The present law is set forth in the Internal Revenue Code, the Federal taxation statute. The basic section of the Code for co-operatives is section 11 which levies a tax "on the taxable income of every corporation." Thus all corporations no matter how organized are subject to income tax unless they can fit themselves into a class which other sections of the Code declare to be exempt from income tax.

54. The major exceptions section is 501 which lists, among others, the following "exempt organizations."

- (5) Labour, agricultural or horticultural organizations.
- (12) Benevolent life insurance associations of a purely local character, mutual ditch or irrigation companies, mutual or co-operative telephone companies, or like organizations; but only if 85 per cent or more of the income consists of amounts collected from members for the sole purpose of meeting losses and expenses.
- (14) Credit unions without capital stock organized and operated for mutual purposes and without profit; and corporations or associations without capital stock organized before September 1, 1951, and operated for mutual purposes and without profit for the purpose of providing reserve funds for, and insurance of, shares or deposits in
 - (A) domestic building and loan associations,
 - (B) co-operative banks without capital stock organized and operated for mutual purposes and without profit, or
 - (C) mutual savings banks not having capital stock represented by shares.
- (15) Mutual insurance companies or associations other than life or marine (including interinsurance reciprocal underwriters) if the gross amount received during the taxable year from interest, dividends, rents and premiums (including deposits and assessments) does not exceed \$75,000.
- (16) Corporations organized by exempt farmers' co-operatives or members thereof and for the purpose of financing the ordinary crop operations of such members or other producers and operated in conjunction with such association. Exemption shall not be denied any such corporation because it has capital stock if the dividend rate of such stock is fixed at not to exceed the legal rate of interest in the State of incorporation or 8 per cent per annum, whichever is greater on the value of the consideration for which the stock was issued, and if subsequently all such stock (other than non-voting preferred stock, the owners of which are not entitled or permitted to participate directly or indirectly, in the profits of the corporation, on dissolution or otherwise, beyond the fixed dividends) is owned by such association, or members thereof; nor shall exemption be denied any such corporation because there is accumulated and maintained by it a reserve required by State law or a reasonable reserve for any necessary purpose.

55. Thus a few specific types of co-operatives are granted an exemption, but this does not give a general exemption to co-operative organizations.

56. But a further exemption is granted under section 521 dealing with "farmers' co-operatives."

(a) Exemption from Tax -

A farmers' co-operative organization described in subsection (b) (1) shall be exempt from taxation under this subtitle except as otherwise provided in section 522. Notwithstanding section 522, such an organization shall be considered an organization exempt from income taxes for purposes of any law which refers to organizations exempt from income taxes.

(b) Applicable Rules -

(1) Exempt Farmers' Co-operatives -

The farmers' co-operatives exempt from taxation to the extent provided in subsection (a) are farmers', fruit growers', or like associations organized and operated on a co-operative basis

(A) for the purpose of marketing the products of members, or other producers, and turning back to them the proceeds of sales, less the necessary marketing expenses, on the basis of either the quantity or the value of the products furnished by them, or

(B) for the purpose of purchasing supplies and equipment for the use of members or other persons, and turning over such supplies and equipment to them at actual cost, plus necessary expenses.

(2) Organizations Having Capital Stock -

Exemption shall not be denied any such association because it has capital stock, if the dividend rate of such stock is fixed at not to exceed the legal rate of interest in the State of incorporation or 8 per cent per annum, whichever is greater, on the value of the consideration for which the stock was issued, and if substantially all such stock (other than non-voting preferred stock, the owners of which are not entitled or permitted to participate directly or indirectly in the profits of the association, upon dissolution or otherwise beyond the fixed dividend) is owned by producers who market their products or purchase their supplies and equipment through the association.

(3) Organizations Maintaining Reserve -

Exemption shall not be denied any such association because there is accumulated and maintained by it a reserve required by State law or a reasonable reserve for any necessary purpose.

(4) Transactions with Non-members -

Exemption shall not be denied any such association which markets the products of non-members in an amount the value of which does not exceed the value of the products marketed for members, or which purchases supplies and equipment for non-members in an amount the value of which does not exceed the value of the supplies and equipment purchased for members, provided the value of the purchases made for persons who are neither members or producers does not exceed 15 per cent of the value of all its purchases.

(5) Business for the United States -

Business done for the United States or any of its agencies shall be disregarded in determining the right of exemption under this section.

57. Although this appears to give an overall exemption to many types of "producers' " co-operatives, Section 522 provides

(a) Imposition of Tax -

An organization exempt from taxation under Section 521 shall be subject to the taxes imposed by Section 11 or Section 1201.

Therefore these farmers' co-operatives described in Section 521, although considered to be organizations exempt from income tax for purposes of any law which refers to such organizations, nonetheless are subject to ordinary corporation tax.

58. Special rules for the computation of the taxable income of co-operatives "exempt" by Section 521 are provided by Section 522 (b).

(b) Computation of Taxable Income -

(1) General Rule -

In computing the taxable income of such an organization there shall be allowed as deductions from gross income (in addition to other deductions allowable under this chapter) -

- (A) amounts paid as dividends during the year on its capital stock and
- (B) amounts allocated during the taxable year to patrons with respect to its income not derived from patronage (whether or not such income was derived during such taxable year)

whether paid in cash, merchandise, capital stock revolving fund certificates, retain certificates, certificates of indebtedness, letters of advice, or in some other manner that discloses to each patron the dollar amount allocated to him. Allocations made after the close of the taxable year and on or before the 15th day of the 9th month following the close of such year shall be considered as made on the last day of such taxable year to the extent the allocations are attributable to income derived before the close of such year.

(2) Patronage Dividends, etc. -

Patronage dividends, refunds and rebates to patrons with respect to their patronage in the same or preceding years (whether paid in cash, merchandise, capital stock, revolving fund certificates, retain certificates, certificates of indebtedness, letter of advice, or in some other manner that discloses to each patron the dollar amount of such dividend, refund, or rebate) shall be taken into account in computing taxable income in the same manner as in the case of a co-operative organization not exempt under Section 521. Such dividends, refunds and rebates made after the close of the taxable year and on or before the 15th day of the 9th month following the close of such year shall be considered as made on the last day of such taxable year to the extent the dividends, refunds or rebates, are attributable to patronage occurring before the close of such year.

59. Co-operative organizations not exempt under Section 521 do deduct patronage dividends from their taxable income on the basis of accepted administrative practice. Section 522 (b)(2) recognizes this practice which had existed before the section was enacted, and allows the same deduction to co-operatives exempt under Section 521.

60. Consumers' co-operatives have been held not to be within the exemption provided by Section 521. They generally are taxed as other corporations except that they may deduct patronage dividends from their taxable income, although a few special types may be able to fit themselves within a provision of Section 501.

61. Patronage dividends can only be deducted by an organization organized as a co-operative and must in general provide that

surpluses will be divided according to patronage in their articles of incorporation. Reserves accumulated are not taxable if the individual member can claim a "specific interest" in a portion of it. But reserves accumulated from non-member patronage are taxable.

62. In general, members of co-operatives are taxed on patronage dividends received from marketing co-operatives and from consumer co-operatives if the items bought therefrom are deductible as expenses. Dividends received in respect of ordinary consumer goods not deductible as expenses are not taxable.

63. In summary, then, the main features arising from the rather complex framework of accepted practice, exemptions and exceptions to exemptions, are:

- (1) Co-operatives and only co-operatives may deduct patronage dividends from their taxable income, whether or not the dividends are paid in cash.
- (2) Certain co-operatives may deduct dividends paid on capital stock from their taxable income.
- (3) Patronage dividends are taxable in the hands of the recipients unless associated with the purchase of consumer goods and services.

Great Britain

64. Both the income tax and co-operative societies are comparatively old in Britain. At first co-operatives were treated as "friendly societies" under the Friendly Societies Act (1846) which gave them an exemption from Schedule C of the Income Tax which was income tax on income derived from the ownership of Government securities. In 1852 co-operatives came under the Industrial and Provident Societies Act which granted them the same tax status as friendly societies. In 1853 Friendly Societies were granted

exemption from Schedule 17, a tax on income from trading.

This most important exemption was extended to Co-operatives under the Industrial and Provident Societies Act in 1862. In 1879 the exemption was restricted to those co-operatives which dealt solely with their own members and did not restrict the number of their shares. At the same time dividends received by customers were made non-taxable although this exemption was not extended to interest on share and loan capital.

65. This exemption, however, was discontinued by the passage of the Finance Act of 1933 which provided:

31. (1) In the application to any company or society of any provision or rule relating to profits or gains chargeable under Case I of Schedule D (which relates to trades) or under Rule 4 of the Rules applicable to Case III of Schedule D (which relates to the profits of certain cattle dealers and milk dealers) any reference to profits or gains shall be deemed to include a reference to a profit or a surplus arising from transactions of the company or society with its members which would be included in profits or gains for the purposes of that provision or rule if those transactions were transactions with non-members, and the profit or surplus aforesaid shall be determined for the purposes of that provision or rule on the same principles as those on which profits or gains arising from transactions with non-members would be so determined.

(2) Subsection (4) of section thirty-nine of the Income Tax Act, 1918 (which exempts certain registered societies from Income tax under Schedules C and D) shall cease to have effect.

(3) It is hereby declared that in computing for the purposes of any provision or rule mentioned in subsection (1) of this section, any profits or gains of a company or society which include any income which is chargeable to tax by virtue of the foregoing provisions of this section, there are to be deducted as expenses any sums which -

(a) represent a discount, rebate, dividend, or bonus granted by the company or society to members or other persons in respect of amount paid or payable to them on account of their transactions with the company or society, being transactions which are taken into account in the said computation; and

(b) are calculated by reference to the said amounts or to the magnitude of the said transactions and not by

reference to the amount of any share or interest in the capital of the company or society.

- (4) A registered society whose business consists mainly in the making of investments, and the principal part of whose income is derived therefrom, shall be entitled to relief under section thirty-three of the Income Tax Act, 1918 (which relates to relief in respect of expenses of management), in the same manner and to the same extent as if the business of the society were the business of a company.

- (7) In this section the expression "company or society" means any incorporated company or society whether incorporated in the United Kingdom or elsewhere, and the expression "registered society" means a society registered under the Industrial and Provident Societies Acts, 1893 to 1928, or under the enactments in force in Northern Ireland known as the Industrial and Provident Societies Acts (Northern Ireland), 1893 to 1929.

66. Therefore under the law since 1933 co-operatives and private companies are taxed identically, paying the same rate and deducting patronage dividends. To be deductible, the prospect of dividend must be held out by the trader to his customer. It must either be paid in cash or withdrawable or transferrable share capital, or loan account, but if declared but withheld it is still subject to tax.

67. In Great Britain income tax is normally withheld from payments of interest or dividend but for administrative convenience, a co-operative is exempted from this requirement. To compensate, it is allowed to deduct from the tax it would otherwise have to pay an amount it would have withheld on interest and dividend payments. It must also file a return showing persons to whom interest amounting to more than 15 pounds was paid together with the actual amount paid to each such person.

68. In addition to income tax, corporations in Great Britain are subject to profits tax. Co-operatives ("registered societies") are taxed at the same rate as other corporations but are allowed to treat dividends, bonuses and similar distributions to members on their shares in the society the same way as interest on moneys borrowed by the society, i. e., to deduct them as an expense. (Finance Act, 1958, section 26(2)).

Sweden

69. The income tax in Sweden is the most important source of government revenue. It provides over half of the National Government revenue (1957-58) and virtually all of local government revenue. There are two income taxes, national and local, but they are administered together under national law. Rates, but not rules, of local income tax vary between localities.

70. The national income tax is assessed against three types of taxpaying entities: individuals, "economic associations," and companies. The definition of "individuals" is conventional. "Companies" refers to the ordinary limited liability corporation in which distribution of profits is made in proportion to capital invested. "Economic associations" include co-operatives and certain private businesses, particularly those involved in real property ownership. They are organized under a different statute than the ordinary corporation.

71. Before 1938, co-operatives were considered "individuals" for income tax purposes and therefore subject to steeply progressive rates. Although this was advantageous for the smaller co-operatives, it penalized the larger ones greatly in comparison to private companies who were taxed on the proportional system.

72. In 1938 co-operatives were given the status of economic associations. As such, they use the same principles as other business enterprises in determining their income, but currently are subject to a tax rate of 32% which is one-fifth less than that of corporations which are taxed at 40%. This lower tax rate is applied to all "economic associations," not only to co-operatives. Co-operatives may deduct patronage dividends paid out or set aside for later payment under by-laws to its members or patrons.

The total amount of such deductions may not exceed the income earned by the co-operative in its co-operative activity. Members and non-members must be treated alike in the paying of patronage dividends.

73. The recipient is liable for tax on interest earned on shares he holds in a co-operative, on dividends from producers' co-operatives (which represent an addition to the price initially received), and for dividends from consumers' co-operatives if the amounts of the purchases themselves were deductible expenses. He is not liable for patronage dividends which were paid to him on the basis of non-deductible purchases.

Summary

74. There is considerable similarity among Canada, the United States, Britain, and Sweden in the tax treatment of co-operatives. The major similarities and differences are as follows:

1. In Canada, the United States, and the United Kingdom co-operatives are considered to be corporations and are generally taxed at the same rate as other corporations. In Sweden co-operatives are considered to be "economic associations" and are thus subject to a lower rate of income tax than are ordinary private companies.
2. In all four countries, patronage dividends may be deducted by a co-operative from its taxable income. In the United States and Sweden, and under somewhat more stringent conditions in Canada, patronage dividends are deductible whether paid in cash or credited to members' equities. In the United Kingdom they are deductible only if paid in cash or in a form readily converted to cash.
3. In Canada and the United Kingdom, any company may deduct patronage dividends from its taxable income.

In Sweden and the United States, only co-operatives may do so.

4. In all four countries income earned from business with non-members is taxable unless patronage dividends are paid to non-members. In Sweden, non-members and members must be treated alike before any dividend can be deducted. In the United States, "farmers' co-operatives" lose their exempt status under Section 521 unless they treat members and non-members alike.
5. In all four countries, the recipients of patronage dividends are taxable on dividends received from producers' co-operatives, and from consumers' co-operatives if the purchases were deductible expenses. Dividends received on ordinary consumer expenditures, being considered a price rebate, do not add to "income" and are not taxable.
6. Canada has two unique provisions regarding co-operatives. One is the exemption from income tax of new co-operatives for the first three years of their operation. The other is the provision that a co-operative may not, by the deduction of patronage dividends, reduce its taxable income below an amount equal to three per cent in its capital employed, less certain interest costs.

CO-OPERATIVES AND FOREIGN INVESTMENT

75. In further assessing the position of co-operatives in the national framework, it is necessary to recognize some of their overall contributions in order that the taxation question may be placed in proper perspective. Not the least important role of co-operatives in the Canadian economy is that relating to ownership, investment and the balance of payments.

76. It is well known that for many years Canada has been heavily dependent on foreign capital, both to finance the deficit on her current international transactions and to finance her domestic real capital formation. This dependence has given rise to some serious problems. One has been the difficulty of maintaining balance of payments equilibrium. Another has been the growth of foreign control in the Canadian economy.

77. During the boom decade of the 1950's, Canada experienced an influx of foreign capital, largely from the United States, totalling \$ 7.7 billion for the ten years. This figure refers to net new capital inflows only, and does not include reinvestment of profits of foreign concerns operating in Canada. The capital inflow led to a current account deficit of comparable size, by discouraging exports and encouraging imports through its effect on the foreign exchange value of the Canadian dollar and its stimulus to Canadian investment and prosperity. By the latter years of the 1950's, the structure of the Canadian economy had become adjusted to an annual current account deficit well in excess of one billion dollars offset by an equivalent amount of new long term borrowing abroad.

78. There is no denying the important contribution of foreign investment to Canadian economic growth, prosperity and employment. However, the heavy reliance on foreign capital placed the balance of payments in a precarious position, as the

events of 1962 showed all too clearly. In the first place, the dividend and interest payments necessary to finance this debt to outsiders grew in step with the debt itself, and have become a major contributor to the imbalance of the Canadian current account. In 1949, interest and dividends payments to foreigners were \$ 390 million; in 1962, these payments had grown to \$781 million. Moreover, the interest component at least of these payments represents a firm, continuing claim on future earning of foreign exchange.

79. Perhaps more troublesome than the burden of foreign debt charges is the potential instability of the rate of inflow of new foreign capital. If the rate of capital inflow falls sharply, a rapid equivalent reduction in the current account deficit is required to protect the external value of the Canadian dollar without excessive pressure on the foreign exchange reserves. It is difficult and painful to induce quickly a large reduction in the current deficit, but the rate of inflow of foreign capital can be quite volatile. In the first half of 1962, the net inflow of foreign long term capital was \$445 million smaller than in the first half of 1961, and a major reason for the austerity program was the need to reduce the current account deficit as far as possible accordingly. The austerity measures imposed real hardships on the Canadian people, in the form of higher living costs and an interruption of expansionist policies to cope with unemployment. But there is no guarantee that the crisis measures were anything more than stop-gaps that did not get to the real roots of the balance of payments problem. A part of the fundamental solution would be to reduce the reliance of the Canadian economy on foreign capital, with its accompanying growth of interest and dividends payments and danger of instability in the rate of inflow.

80. Another problem arising from reliance on foreign capital, additional to the dangers involved for balance of payments equilibrium, is the matter of foreign control. Foreign equity investment has tended to concentrate in particular industries in the resource development and manufacturing fields.

81. There has been growing awareness of the problems that arise from heavy concentration of outside ownership in particular industries and the potential danger to economic independence that this creates. It has been charged that United States based firms preserve export markets for themselves, that little or no research is allotted to Canadian subsidiaries, that managerial and other important positions are staffed by outsiders, that much of their profits are taken out of Canada, that decisions of the U.S. government or of U.S. parent companies restrict export sales into new markets by Canadian subsidiaries, and that Canadian subsidiaries are beyond the control of Canadian monetary policy because of their ready access to finance from their parents. There appears to have been emotional exaggeration in some quarters of the quantitative importance of some of these problems to date. However, they are at least potential problems of some gravity, and it would be well to reduce them if possible by a reduction in Canada's reliance on foreign capital.

82. Thus the problem of maintaining balance of payments equilibrium and the problem of minimizing foreign control of the Canadian economy both point up the need for increased Canadian self-reliance in financing real investment. Co-operatives have an important role to play toward this end. While it is true that in total they represent a small proportion of the nation's business, the principles under which they operate fit well into the maintenance of Canadian ownership and control. Capital for financing co-operatives is supplied by the members

themselves and these members in turn are the owners of the business. The amount of non-resident participation would therefore be negligible. The Alberta Wheat Pool paid less than one-half of one per cent of its patronage dividends to non-residents in 1960-61, and this is probably fairly typical of most other co-operatives.

83. Because of their principles of ownership and control co-operative organizations do not give rise to problems of foreign ownership. Because of their almost complete reliance on Canadian sources of finance, they do not add to the inflow of foreign capital or to the burden of debt charges payable to foreigners. Indeed, their usefulness in these latter respects is more fundamental than might appear at first sight. A firm which borrows only in Canadian capital markets does not itself borrow funds from abroad, but it tends, by absorbing part of the limited supply of Canadian savings, to force other firms to borrow abroad. On the other hand, a co-operative which finances itself with undistributed patronage dividends is not putting pressure on the general capital market, but rather is acquiring finance by providing its members with encouragement and opportunity to save.

84. There has been a great deal of publicity regarding the use of the tax structure to encourage Canadian financing and control of Canadian business. In the light of current conditions, there seems to be some justification for such an approach. In this case, the special features of co-operatives in this regard would require recognition in the form of maintenance or augmenting of such tax treatment as they now receive.

EVALUATION OF PAST GROWTH AND RELATIVE POSITION OF
CO-OPERATIVES IN THE CANADIAN ECONOMY

85. It has been suggested in various quarters that co-operatives in Canada have enjoyed an excessive rate of growth, based on an alleged tax advantage over their private competitors. R. Craig McIvor describes this viewpoint in the following words: (27)

86. " 'Private' enterprise nevertheless directs its major criticism at section 75(1), which provides for the deduction of patronage dividends in computing the taxable income of co-operatives. The objection is two-fold, relating in part to the fact of deductibility of patronage dividends allocated, whereas corporate dividends, to which they are regarded as comparable, are not deductible; and in part to the allowable forms of allocation, which permit co-operatives to conform to the legal requirements governing the allocation of such dividends while in fact retaining all, or a substantial part of the funds for their own use. Section 75(1) is therefore regarded as conferring upon co-operatives a critically competitive advantage with respect to the raising of capital to finance expansion; and it is commonly asserted that without such an advantage, their postwar growth would have been much less striking and their competitive inroads much less significant than those reflected in the statistics presented earlier in this survey.

87. In those sectors of the Canadian economy where co-operative enterprise is found, 'private' enterprise interprets this problem of tax-inspired advantage in varying degrees of urgency; but it is quite clear that in some particular areas of merchandising and of marketing the situation is viewed as threatening the continued existence of private enterprise."

88. Elsewhere in this brief it is argued that co-operatives do not in fact enjoy preferred treatment under Canadian Taxation, although there is a good case they should. The purpose of the present section is to consider the allegation that co-operatives pose any significant threat to existence of other forms of business enterprise in Canada.

(27) McIvor, R. Craig; Recent Growth in Canadian Co-operatives; Canadian Tax Papers, No. 28, Canadian Tax Foundation, June, 1962, page 28.

89. The co-operative movement is proud of the growth it has enjoyed in Canada in the twentieth century. Members and managers of co-operatives trend to feel that the co-operative is an ethically and economically desirable method of conducting business, and they are naturally eager to see co-operatives grow and multiply. However, while there are some who look toward the establishment of a completely co-operative economy, probably most adherents of co-operation regard it as a supplement to "private" enterprise in areas where "private" enterprise fails to perform adequately by itself. Probably few supporters of co-operation regard the movement as a threat to the existence of "private" enterprise. Consideration of neither the present position nor the recent growth of co-operatives in Canada could lend support to the view that co-operatives pose unreasonable competition to other forms of business enterprise. The present position and the recent growth of Canadian co-operatives will be discussed in turn.

90. Some perspective on the relative magnitude of co-operatives in the Canadian economy is needed. Total retail trade in Canada in 1961 totalled \$16,664 million, while total sales by merchandising co-operatives in that year were \$388 million or 2.3 per cent of total retail trade (28). Business of wholesale co-operatives in 1961 amounted to \$319 million, an amount equal to 3.6 per cent of total Canadian wholesale business of \$8931 million in that year.(29) In other words, "private" retailers handled over 97 per cent of Canadian retail business in 1961; "private" wholesalers over 96 per cent of Canadian wholesale business. Data are not available to indicate the

(28) See Appendix B Table 1

(29) See Appendix B Table 3

share of marketing co-operatives in total marketing done in Canada. However, the share must be very small. Marketing sales of farm products comprise most of the co-operative marketing done in Canada, and these amounted to \$1018 million in 1961.(30) Total marketing of all items in Canada must amount to several times the Gross National Expenditure, which measures total sales of finished goods and services only, and which was \$37,421 million in 1961. In short, an overall view of the activity of co-operatives in Canada hardly suggests that they have seriously encroached upon other forms of business organization.

91. The overall view is important for the perspective it gives, but it does hide many details. Therefore, the tables in Appendix B are submitted for specific consideration. Table 1 provides some of the details for merchandising co-operatives; Table 2 for marketing co-operatives. Table 1 shows that co-operatives enjoyed about one-third of the market for feeds and fertilizers in recent years, but in other areas of retailing their 1961 share ranged from a high of 7.9 per cent in hardware to a low of under one per cent in clothing and furnishings. Table 2 is not concerned with the majority of product markets in Canada, where co-operative activity is generally insignificant, but only indicates the portion of farm cash income derived from sales of marketing co-operatives. In 1961, 34 per cent of total farm cash income came through marketing co-operatives, whose share for particular products was highest for grain and seed at 59 per cent and lowest at only 2 per cent for tobacco. It is apparent that almost the only markets in Canada where co-operatives have a substantial share are those closely connected with farming. Such

(30) See Appendix B Table 2

markets are those for the marketing of farm produce and the supplying of feeds, fertilizers, farm implements and farm hardware. Co-operatives' importance in these markets is a reflection of farmer dissatisfaction with other forms of business enterprise, as is exemplified in the survey of the history of the Alberta Wheat Pool elsewhere in this submission. In other markets, the share of co-operatives is generally too small to arouse any justifiable concern among adherents of other forms of business organization.

92. Nor does an inspection of the recent growth of co-operatives in Canada provide grounds for a forecast that they will steadily replace "private" enterprise. Again, an overall view is useful. From 1947 to 1961, the Canadian Gross National Product increased by 2.72 times in terms of current dollar values. Over the same period, the total dollar value of business of marketing, merchandising and wholesale co-operatives together increased 2.18 times. This crude comparison does serve to indicate that co-operatives have not in aggregate encroached on "private" enterprise.

93. The accompanying Tables present some of the details underlying the aggregates. Table 1, concerned with merchandising co-operatives, shows the largest absolute gain in co-operative sales in the food products category, a gain of 78 million dollars from 1947 to 1961 or of an impressive 278 per cent. However, this reflects the impressive growth of the total market for food products. The co-operative share did not change significantly according to Table 1. In a few other areas of retailing, especially in sales to farmers, co-operatives did substantially increase their share of the market, but their share of total retail sales in Canada grew only modestly from 1.8 per cent in 1947 to 2.3 per cent fourteen years later.

94. Marketing co-operatives have in recent years remained confined for the most part to their traditional role in handling farm produce. While these markets in aggregate have not grown as fast as the Canadian economy at large, co-operatives have increased their share of these markets. Co-operative marketing sales were 29 per cent of farm cash income in 1947, 34 per cent in 1961, as Table 2 shows. These aggregates conceal wide variations among particular markets. The portion of farm cash income from co-operative sales dropped sharply in fruits and vegetables and in tobacco, and remained almost unchanged in eggs and poultry, between 1947 and 1961. Almost all of the absolute increase in co-operative sales arose in the three markets, dairy products, grains and seed, and livestock.

95. However, while farm cash income from these three sources rose by \$788 million from 1947 to 1961, co-operative sales of these products rose by \$468 million. That is, while co-operatives expanded their share of these markets, they did it by capturing an above average portion of the growth of the markets, and not by forcing an absolute contraction of their competitors.

96. Wholesale co-operatives have grown at a rapid rate in recent years, as Table 3 shows, increasing their total sales by 280 per cent from \$84 million in 1947 to \$319 million in 1961. However, in interpreting this large percentage figure one must remember McIvor's warning that "These extraordinarily high rates of growth in co-operative wholesaling figures are in part explained by their relatively small base." (31) In other words, percentage changes approach meaninglessness as the base on which they are computed becomes smaller. A

(31) McIvor, Op. cit., page 25.

family whose numbers increase by 50 per cent from 2 to 3 with the birth of its first child is not on its way toward predominance in the nation's population, even if the nation's population rises by only two per cent or so in the same period. (Indeed, it is a criticism that might be directed to various points in McIvor's own study, that the careless reader may be led, by the absence of more frequent reminders that many large percentage increases are computed from small bases, to an exaggerated notion of the growth of co-operative business in Canada.) Wholesale co-operatives did expand their share of total Canadian wholesale trade from 2.5 per cent in 1947 to 3.6 per cent in 1961. This relative growth in general reflected a catching up with the retail co-operatives' share of retailing, as the wholesales became more diversified and able to provide a larger proportion of the retail outlets' requirements. But the retail co-operatives have not significantly altered their share of total retailing, and this imposes a severe restraint on the further growth of the co-operative share in wholesaling.

97. This survey provides no support for the suggestion that co-operatives in Canada endanger other forms of business organization.

CONCENTRATION IN CANADIAN MANUFACTURING INDUSTRY

98. In a study published in 1957, Professor Gideon Rosenbluth has made an exhaustive analysis of the degree of concentration in ninety-six Canadian manufacturing industries in 1948 (32). The following table presents a fragment of his results for a group of industries chosen to illustrate the wide range of degrees of concentration which existed.

TABLE

Concentration in Canadian Manufacturing Industry, 1948

<u>Industry</u>	<u>Number of firms required to account for 80% of employment</u>
Aluminum	0.8
Automobiles	1.7
Petroleum Products	3.0
Sugar Refineries	4.1
Slaughtering and Meat Packing	11.2
Condensed Milk	12.0
Flour Mills	22.0
Butter and Cheese Factories	369.9
Feed Mills	469.8
Saw Mills	1843.4

99. A wide variety of factors influence the degree of concentration of an industry. One factor is the size of the industry itself. Although there are large industries which are highly concentrated and small industries with low concentration, generally speaking the larger the industry the lower the concentration,

(32) Rosenbluth, Gideon, Concentration in Canadian Manufacturing Industries; National Bureau of Economic Research, No. 61, General Series, Princeton University Press, 1957. Table from Appendix Table A-1, pp. 111-113.

simply because there is room for more firms.

100. The geographical location of an industry in Canada affects the degree of its concentration. An industry, such as aluminum, in which geographic location is of paramount importance and transportation costs are not a major factor tends to be highly concentrated. On the other hand, for industries where transportation costs are relatively large and markets are geographically separated, there tends to be low concentration. Examples are feed mills and sawmills.

101. Industries which require a high capital: labour ratio tend to have a greater degree of concentration than do industries in which a higher proportion of labour is used. Substantial economies of large scale operation tend to be associated with techniques requiring a high capital: labour ratio. Also, high capital requirements tend to increase concentration by restraining the entry of new firms into such an industry.

102. The Alberta Wheat Pool handled 42.3 per cent of Alberta grain deliveries in the 1961-62 crop year, and is the largest firm in the grain handling industry in Alberta. It is argued in some quarters that the Pool owes its share of the market to an allegedly favourable tax treatment as compared with its competitors. However, the above few paragraphs illustrate that ordinary corporations have grown to dominant positions in various industries for various reasons. In the case of grain handling, the high capital: labour ratio involved and the substantial economies of large scale operation tend to bring about a fairly high concentration in the industry. In an industry where one would expect to find a fairly high concentration, the Alberta Wheat Pool acquired its large share of the market at its inception on the basis of farmer dissatisfaction with previous marketing arrangements; and the Pool has main-

tained its position by maintaining the loyalty of its suppliers
through continuing to serve their interests.

ECONOMIC CONTRIBUTIONS OF THE ALBERTA
WHEAT POOL TO THE REGIONAL ECONOMY

103. Economic contributions effected by the Alberta Wheat Pool in the province may be measured concretely. Contributions in this sense have been both local, to individual communities, and provincial, extending throughout all regions. The highlights of such benefits endowed on communities by the Pool's presence are noted for consideration in that the application of corporate income tax on amounts available for patronage dividend distribution would greatly reduce the extent of these present contributions.

104. The Pool was originally organized as a counterforce to monopoly, a function which is preserved to this day. The economic significance of this concept stems from stabilized marketing arising from the increased collective bargaining power of farmers. The early years of this century exemplify the inequities suffered by the individual grain producer resulting from his inferior bargaining position in dealing with monopoly marketing concerns. Such conditions wrought a depletion in monetary returns to the individual farmer. With decreased purchasing power, he was less well equipped to provide for himself and his family to say nothing of effecting technological improvements in his enterprise.

105. The association of farmers in marketing their grain has definitely enhanced their individual economic positions. Whereas before the commencement of pooling grains, the individual's discontent had little effect on the market situation, today the combined voices of farmers, united by a single purpose, place significant attention on areas of disparity. Monetary returns have improved, standards of living have been raised, and advances in technology have been utilized. Such advances are directly due to a stabilized marketing environment made possible largely by the Pool.

106. In the 1960-61 crop year, 39.5% of total provincial grain

deliveries were made to Pool facilities by Pool members. (33). Returned excess charges to producers less necessary expenses were therefore based on this percentage. Because of strict adherence to this principle of service at cost, the Pool was able to return well over six hundred thousand dollars in cash (See Appendix D , Table 1) to Alberta's local, and on a broader scale, regional economy. At the same time, other grain marketing concerns, who commanded 58.5% of the market, may have used similar funds to pay stock dividends to shareholders (not necessarily residing in Alberta or even in Canada) or could have left substantial amounts in surplus accounts as undistributed earnings.

107. The significance of the above comparison involves two points. Firstly, the Pool directly returns the benefits of efficient operation and service at cost to its farmer-owners, thus enhancing their individual economic positions. Secondly, by functioning mainly as a provincial concern, the collective amounts returned to individuals as patronage dividends contribute to the economy in the locality of their origin which concurrently is of benefit to the aggregate provincial economy.

108. There is little doubt that one of the most measurable contributions to Albertans resulting from Wheat Pool marketing is the return of patronage dividends to members. For example, the 1961-62 crop year saw \$1,465,999 distributed to Pool farmers in cash and approximately \$1.2 millions allocated to their reserve accounts to be claimed upon retirement. Through allocation of these funds, the problem of undistributed

(33) Deliveries by both Pool members and non-members to Pool elevators accounted for 41.5% of total Provincial grain deliveries in crop year 1960-61. Member deliveries accounted for 95.6% of deliveries to Pool elevators. Therefore, (41.5% x 95.6%) 39.5% of total deliveries in Alberta were made to Pool elevators by Pool members. (See Appendix C , Table 1).

earnings does not apply to the Alberta Wheat Pool. Corporate undistributed earnings reportedly constitute a major headache in our current tax system (34). The co-operative Pool, because it does not add to this problem, makes a sizable contribution to the economy of the province.

109. Appendix D, Table 2, shows representative trading centres in Alberta and the amounts resulting from cash patronage dividends which went back into these respective communities in 1961-62. It should be noted that the recipients were responsible for payment of personal income tax on not only the cash portion, but also on dividends retained as reserves. However, it is obvious that substantial sums accrue to each point and it should be observed that the centres noted are not necessarily the largest nor the smallest in terms of grain deliveries for their respective areas. They were chosen as centres where in cash patronage dividends would most likely pass to the local merchants.

110. When one considers that since inception, the Alberta Wheat Pool has returned to members some \$11.4 millions in cash dividends and approximately \$21.6 millions in reserve dividends, the economic importance of the Pool to local communities is apparent. If such funds were not available to the farmers as consumer dollars, the impact on local and regional enterprise would be felt by every sector of the economy. With agriculture accounting for approximately 25% of Alberta's net value of pro-

(34) Information in a recent tax study by A. Emile Beauvais, R. Bredin Stapells, George T. Tamaki, and Harold P. Herington, which we understand was made available to the Royal Commission on Taxation by Finance Minister Gordon. The study stated that the current tax systems "tend to encourage excessive accumulation of corporate earnings." One of the recommendations made was that corporations be given an incentive to distribute their earnings through a special tax abatement on a percentage of dividends paid.

duction (35) and with the Wheat Pool share of grain marketings resting around 40% of the total deliveries to elevators, it is obvious that the curtailment of patronage dividends in cash, or in reserve form which becomes cash eventually, would check the pace of rural business activity.

111. Referring specifically to the patronage dividend reserve amounts and their economic effect it should be noted that these amounts accumulate in members' accounts and at such time as they retire from farming or reach a certain age limit, the accumulations are refunded in full. Consequently, such amounts represent a "retirement" fund to the farmer who has not the ready access to similar methods in providing for his later years as does the city or corporate worker - most of whom enjoy benefits through company contributory plans. Funds which are allocated to members' reserves are subjected to personal income tax in the recipient's hands even though he does not receive them in cash form. In the 1961-62 crop year, \$1,172,857's worth of reserves were purchased from members in the "retirement" category or from estates of deceased members.

112. It is submitted that the availability of amounts accumulated through reserve patronage dividends alleviates the strain on both national and provincial social security measures. Farmers have traditionally occupied a low income bracket (36)

(35) Alberta Industry and Resources: Alberta Bureau of Statistics, Department of Industry and Development: Edmonton; 1959: page 9 (latest statistics available)

(36) Although average realized farm net income per Alberta farm equalled only approximately \$4100 in 1962 (calculations based on statistics in DBS Catalogue No. 21-202, May 1963; Census of Canada, 1961 - Bulletin SA-1 page 65) a similar average per Canadian farm is closer to \$3000.

It is accepted that the farm family has a slightly lower cost of living than the city dweller. Income in kind is more readily

with little opportunity to place aside amounts for retirement years. Therefore, amounts received from the farmer's own organization upon the termination of his farming activities are a tangible and measureable economic contribution to his support in non-productive years. Some Pool members have received up to \$13,000 in the form of reserve patronage dividends upon reaching a "retirement" bracket.

113. Should the taxation of patronage dividends on a corporate scale inhibit the ability of the Pool member to provide for security in old age, it would be tantamount to social and economic discrimination against the Pool farmer-owner.

114. It would be a direct debasement of the position he has come to occupy through his own initiative. It would place an additional and unnecessary burden on the social security programs of government and a consequent heavier tax load on all

available to rural families. Housing is probably cheaper although perhaps not of as high a standard. Nonetheless, farm income fluctuates more frequently. Market situations, weather conditions and crop yields on which farm income depends are more variable factors than urban labor wage rates. According to Samuelson (Economics, An Introductory Analysis; page 492) "Farming is an up-and-down industry. Corn, wheat, beef, pork and other farm products are sold in highly competitive markets whose prices change yearly, daily, hourly and by the minute. The farmer swings at the very end of our seesawing economy. Good times bring him great percentage increases in income. Depressions cause his cash income to drop away to very little. . . . since 1947 farm income has been sliding downward relative to other incomes, both in total and in per capita terms." Consequently, the agricultural producer must attempt to provide for lean years from earnings of more successful times. Non-agricultural labor can usually depend on a definite income for a given period. Some consideration must also be given to income arising from factors other than labor alone. Whereas non-agricultural labor income is strictly a labor return, net farm income is a return to a combination of categories - namely management and investment as well as labor. Capital investment requirements alone are substantial in farming enterprise. A return to investment therefore should be realistically be expected. In spite of these latter considerations, average net farm income per Alberta farm is only slightly higher than average per capita non-agricultural labor income. On this basis it is contended that the farmer occupies a low income bracket.

taxpayers in the nation.

115. An outstanding feature of the Canadian grain business is the relatively low handling charges paid by the producers, and the fact that they have not increased, over the years, in proportion to other costs. The grain handling charges in this country are among the lowest in the world.

116. In 1923, when the Alberta Wheat Pool contracted with the elevator companies to handle Pool wheat the fee agreed upon was six cents per bushel. From 1925 to 1930, when Wheat Pool elevators were operating, all companies handled Pool wheat for four cents for the top three grades and five cents for the others. From 1930 to 1932, the charge went up to five cents for all grades and down to four cents between 1933 and 1935. The Canadian Wheat Board paid an average of four and one-half cents per bushel from then until 1942, when the Pool offered to handle for three cents. The price went back up to four and one-half cents in 1948 and remained there until 1962, when it advanced to five cents.

117. In spite of the tremendous advance in prices since 1931, including the quadrupling of the figure for wheat, elevator charges are almost identical to those prevailing in the depression period. The Pool has acted as a restraining influence in preventing these costs from skyrocketing in line with the general inflationary trend.

118. The foregoing economic contributions are due directly to the fact that the Alberta Wheat Pool is a co-operative and functions with the principle aim of giving service to its members. Because of the measurable benefits the Pool bestows on farming and rural communities, it is suggested that no recommendation which would act to restrict such benefits should be advanced by this Commission.

119. Patronage dividends are economically distinct from

corporation profits and should not be subject to income tax on the same basis. These dividends presently constitute a significant portion of consumer purchasing power. Their reduction or discontinuance due to tax would produce a resultant decrease in consumer spending. This would not be in the best interests of the provincial economy.

SOCIAL CONTRIBUTIONS

120. It is submitted that the activities of the Alberta Wheat Pool contribute to the social well-being of both members and non-members of the organization. Some of these contributions are a by-product of the achievement of economic reform in grain marketing while others are a direct result of definite programs undertaken by the Pool. A brief discussion of each type follows.

121. Social achievements have resulted directly from grain marketing activities of the Pool and also from the manner in which the Pool is organized. It is submitted that security of ownership results from the fact that only stipulated types of farming meet the qualifications necessary for an individual to become a farmer-owner. Consequently, there is no possibility for persons not engaged in farming at the producer level to gain control of the organization for their own ends.

122. A further safeguard stems from the one-member-one-vote provision. This assures that no one individual may direct the policy to his advantage alone. The small producer is guaranteed the same voice in government of the organization as the largest operator in the Pool.

123. The two examples noted in the foregoing paragraphs give all members an equal say in government and control as well as the knowledge that outside interests cannot interfere and direct Pool activities along lines foreign to the wishes of members. A share in the Pool cannot be purchased in the same manner as is the case for most "ordinary" corporations. The members are secure in the knowledge that they will always have the final say as to how their organization is to conduct matters which affect their business.

124. With respect to other contributions of a social nature, attention is directed toward some of the specific educational programs undertaken by the Alberta Wheat Pool. One of the basic

principles inherent in the co-operative philosophy advocates continued provision for education. All of the following activities are oriented with this basic aim in mind. These programs are equally available to members and non-members of the co-operative. They are offered as a means for improving the lot of all farm people and agriculture in general.

125. Rural youth constitutes perhaps the most important segment of today's rural population. The future of the nation's agriculture rests on the shoulders of young people in farming communities. A continual depletion of the rural population due to the reduction in the number of farm families increases the need for those who remain to acquire advanced farming skills and education in order to meet the challenge of continued specialization.

126. A number of programs are undertaken by the Alberta Wheat Pool which are oriented towards providing educational opportunities for rural youth. The Pool sponsors 35 delegates to the Annual Farm Young People's Week in Edmonton. The delegates attend a short course at the University of Alberta. Members of the Pool field service staff assist the Department of Extension in conducting the course.

127. 4-H projects constitute a major sector of the Pool's program of agricultural education and extension. 4-H Girls Garden Clubs have been regularly sponsored for a number of years and from fifty to sixty clubs are now in operation each year. This activity provides excellent training with suitable awards given for general proficiency.

128. Another 4-H project underwritten to a large extent by the Pool concerns the 4-H District Camps. A cash grant is contributed and members of the field staff serve as camp staff members.

129. Field Crops Clubs are sponsored jointly by the Alberta

Wheat Pool and some other grain trade organizations for persons in the 4-H Club age bracket. Numerous projects are available to club members including test plots where various fertilizer treatments are used. Suitable awards are given and the total cost is shared equally by the sponsoring groups.

130. A number of scholarships and bursaries are made available to students from rural communities for study at various provincial educational institutions. Two such bursaries are valued at \$500 each and are tenable for 5 year periods at either of Alberta's universities. Three scholarships in household economics are also offered to deserving young people who have been members of Alberta's 4-H homemaking clubs. These too are tenable at the university.

131. Six bursaries in honour of Henry Wise Wood, first president of the Alberta Wheat Pool, are provided for deserving students who may wish to enter one of Alberta's Schools of Agriculture. The purpose of these bursaries is to assist farm boys and girls to attend an agricultural college and who may not have sufficient financial means to do so.

132. Looking at similar contributions the Pool makes to other sectors of the rural population it is again noted that agricultural education and extension play the dominant roles in the program orientation. Leadership courses are offered to farm people at which senior leaders of farm and rural organizations may discuss, study and more fully understand the sociological and human relations factors affecting farming, farm living and rural life. Pool field service representatives often assist in conducting the programs. Two such courses offered under partial or total Pool sponsorship are the Banff Leadership Techniques Course and the Rural Leadership Conference.

133. A Teacher Training Program has been undertaken more recently whereby the Pool sponsors a number of rural teachers

so they may attend a summer training course. One teacher is selected from each of eight districts within the province.

134. A most important source of agricultural information is provided to both the business and rural communities by the Wheat Pool Budget, an official weekly publication of the Alberta Wheat Pool. With a circulation ranging from 6,000 to 8,000 copies per week, the Budget conveys information concerning crops, farm income, market conditions, agricultural legislation along with general news both to rural inhabitants and urban organizations. Banks, transportation companies, farm machinery concerns and governmental departments and agencies are only some of the many businesses who receive this newsletter free of charge. The Budget also serves as a vehicle for explaining the co-operative and its place in the economy.

135. A number of other publications are also distributed by the Alberta Wheat Pool from time to time. The information contained therein is accurate and reliable. Some cited examples would be Grain Varieties in Alberta, Students Story of Wheat and Our Feet on the Ground. The latter booklet is issued in conjunction with the Saskatchewan and Manitoba Pools and concerns soil and land conservation.

136. Finally, the field service staff of the Alberta Wheat Pool preform innumerable functions of a service nature which contribute to all phases of rural activity. Providing educational films, giving instruction in public speaking or parliamentary procedure, organizing and participating in community projects and generally working for the benefit of agricultural people are only some of the many contributions these men make to country life on behalf of the Wheat Pool. The social consequences of these programs are of inestimable value.

137. In conclusion, Appendix E, Table 1, sets out monetary donations made by the Alberta Wheat Pool in 1961-62 to various

educational activities. Although the total amount is fairly substantial, the overall value by way of what these donations provide to rural inhabitants at no cost to themselves is of a magnitude beyond estimation. It is therefore submitted that the Alberta Wheat Pool works in the public interest to an extent beyond most, if not all, competitors in the grain trade. Specific attention must be directed to this aspect when considering tax measures which may inhibit the ability of the Pool to function in such a manner.

GROWTH OF ALBERTA WHEAT POOL AND ITS PRESENT
COMPETITIVE POSITION IN THE GRAIN HANDLING BUSINESS

138. It has long been contended by competitors that the method of taxing co-operative organizations results in distinct competitive advantages as against joint stock and private business concerns.

139. It would seem that evidence in this regard indicates otherwise. Similar complaints against co-operatives were voiced before the McDougal Royal Commission on Co-operatives (37) which dealt with them in the following manner:

140. "We find no basis for the view that the freedom of co-operative associations from income taxes has, in the past, induced the associations to engage in unreasonable direct price competition, or enabled them to damage their competitors by attracting funds which otherwise would have been available for investment in ordinary business. Whether the ability to pay patronage dividends gives an association a competitive price advantage is debatable. It would appear, therefore, that the chief competitive advantage which the co-operative associations as entities enjoy, by reason of their tax exempt position, lies in their present capacity to set aside larger reserves than they could if they were taxed on the same basis as are their competitors. This conclusion finds support in the fact that co-operative marketing associations do not appear to have been able to obtain a larger proportion of the business of marketing farm produce." (38)

141. It is noted that since the writing of this Report, legislation has been enacted which no longer affords co-operatives a tax exempt position. Nevertheless, competitors still insist that a competitive advantage accrues to co-operative enterprise through the accumulation of reserves, which, in most cases, are liabilities in the hands of the co-operative and really belong to the members themselves.

142. If the above allegations were indeed true, then co-operatives would hold the dominant position in their respective

(37) Report of the Royal Commission on Co-operatives:
Cloutier, Edmond; Printer to the King's Most Excellent
Majesty: Ottawa, 1945; page 35

(38) Ibid., page 35

competitive enterprises. We have statistically demonstrated in this submission that such is not the case. Co-operatives today, hold essentially the same market position in the economy as they held some fifteen to twenty years ago. This statement is substantiated by the Report of the Royal Commission on Price Spreads of Food Products in referring to the extent of co-operative competition in the food processing industry:

143. "The most significant conclusion to be drawn from the data. . . . is that the share of the processing which is done co-operatively has been barely holding its own. This revelation may come as somewhat of a surprise to many people who realize that recent years have witnessed a steady if gradual increase in both the dollar value and the absolute amount of processing done by co-operatives. However, parallel increases have occurred in the total amount of processing. Since total processing and co-operative processing have increased at roughly similar rates, the co-operative share of the processing has remained relatively unchanged." (39)

144. The Price Spreads Commission Report (40) goes on to state that there are only three possible ways in which a co-operative might gain competitive price advantage:

- (1.) if it was larger, stronger or more efficient than competitors, this superiority might be demonstrated by paying higher prices to producers or accepting lower prices from consumers;
- (2.) co-operative competition might be strong enough to cause market prices generally to be more completely competitive; and
- (3.) co-operatives might find it at least possible to equal the less satisfactory price treatment being meted out by competitors.

The conclusion of the Commission, however, lends substantial support to our contention that co-operatives do not unduly endanger the position of their competitors:

(39) The Queen's Printer and Controller of Stationery, Ottawa; Volume 111, 1960; page 9

(40) Ibid., page 21

145. "While it is possible to find illustrations of all three types of situation just indicated, there are certainly very few cases where Canadian co-operatives have deliberately set out to pay more or charge less than their private competitors." (41)

146. It may be observed from the foregoing that the competitors of co-operatives argue against co-operative enterprise, not on the ground that co-operatives actually occupy a position that is economically advantageous as against "ordinary" business concerns, but rather on the basis that they choose to suspect the co-operative method of conducting business as the reason for their own inability to keep pace with the changing competitive demands of a modern economy. We have demonstrated the minute but important competitive position occupied by co-operatives on a national scale. We shall now demonstrate the significance of the role played by the Alberta Wheat Pool in the handling and marketing of grain. We shall also show why the Pool has enjoyed marked success in this complex marketing procedure, resulting in the growth of facilities and membership. Further we shall prove that such expansion which has occurred has not been due to any preferential tax treatment but rather results from the same conditions as those which demand enlargement for any type of business organization.

147. The membership drive for the Alberta Wheat Pool commenced in August 1923, with the sign-up objective of 2,842,798 wheat acres. (42) This area amounted to fifty per cent of the total wheat acreage of the preceeding year. Although the initial sign-up was short of the objective by some 200,000 acres, the

(41) Ibid., pages 21 and 22

(42) Nesbitt, Leonard D., Tides in the West; Modern Press, Saskatoon; 1962; page 49

membership was sufficiently large to prompt the initiation of marketing activities by the Pool trustees. Consequently, the largest share of the grain market enjoyed by the Alberta Wheat Pool was acquired at inception and not through a continual erosion of competitors' business.

148. The growth of the Alberta Wheat Pool is reflected by the statistics presented in Appendix C, Table 1. It will be noted from column (4) that in the first year of operation, namely 1923, nearly 26% of the wheat crop was marketed by members of the Pool. It should also be mentioned that this market share was the result of only two weeks canvassing on behalf of proponents of the co-operative Wheat Pool and that the prospective members approved the pooling method of marketing even though the harvest was almost under way. This example substantiates our contention that Alberta farmers were dissatisfied with the existing methods of marketing their grain and were prepared to take the risk of organizing the Wheat Pool even though it was almost too late in the season. It will be noted further from column (4) that by 1925, the third year of the Pool's existence, 48 % of the wheat marketed in Alberta was marketed by Wheat Pool members. This absolutely confirms that the Wheat Pool share of the Alberta market was acquired at inception, due to the farmer dissatisfaction with existing marketing methods and grain handling concerns.

149. Initially, the Alberta Wheat Pool was organized to market only the wheat production of its members. A five year contract was initiated in 1923 and when this expired in 1927, a second five year contract took its place, due to expire in 1932. While these contracts were for the express purpose of handling wheat, a voluntary oat pool

was organized in 1929 and operated for that crop year. Additionally, small amounts of coarse grains were handled through the Wheat Pool but only on a consignment basis as these crops were actually marketed by established grain handling concerns. It was not until the Pool acquired its own elevator facilities on a scale equal to patron demand that the acceptance of coarse grain crops for marketing became the general practice.

150. It will also be observed that concurrent with the completion of a sufficient number of elevators to meet the marketing requirements of Pool members, came a sharp decrease in the percentage of wheat handled by the Pool. However, a significant increase in the Pool's total marketing of all grains did not occur to offset the wheat percentage decrease. This decline was probably effected by certain conditions.

151. It is apparent that by the time the Pool had become of a size necessary to meet the delivery requirements of the members (1930-31 when 438 country elevators were operating), it had established a market share of between 25% and 30% of the provincial total marketings for all grains. Further, this percentage range was substantially less than the initial Pool share of wheat marketings commanded in the first six to seven years of its existence (average of 43.6% for 1923-24 to 1929-30).

152. The main influence behind this decline revolves around the 1929 overpayment and the subsequent government loan to the Pool. Some farmers ceased delivery to Pool facilities in view of the then current world economic conditions and the possibility that the Pool would not be able to meet its financial obligations due to the imminent

prospect of a depression. The majority of members remained as patrons and saw the Pool through this period of difficulty. However, those who ceased to patronize the Pool also contributed to the decline of the Pool's market share. It is also probably fair to state that because of more competitive local marketing conditions largely brought about by the entry of the Pool into the grain handling business, other organizations were forced to more actively compete for farmers' grain. These companies met the challenge and retained the largest share of the market in addition to actually increasing their share at the Pool's expense.

153. Turning to the latest five year period of Wheat Pool marketings, columns (4) and (7), it will be noted that the Pool percentage of provincial wheat marketings has recovered somewhat from the position of the 1930's, but is still less than was the case in the first few years of operation. Therefore, referring specifically to the percentage share of the wheat market, the Pool is only regaining the market share it enjoyed initially. It follows then that attempts to show the Alberta Wheat Pool as forcing its way into a new market position are false. Pool wheat marketings, in absolute amounts, reached an all time high in the crop year 1927-28 and this has not been equalled since.

154. Column (7), Appendix C, Table 1, shows the Wheat Pool's market share of all grains delivered provincially. It should be noted that for the years 1923 to 1929, the percentage is fairly low due to the building and acquisition of Pool country elevators. For this period, Pool grain was handled through existing elevator facilities and some handlings are recorded even up to 1934. However, by 1930, the Alberta Wheat Pool had acquired a sufficient number of country elevator facilities to handle member business. This number did not substantially

change until 1947, when Northern Grain Company discontinued country elevator operations and the Alberta Pool acquired some of their facilities.

155. Returning to column (7) however, it will be noted that a record market share was recorded in 1929-30, a level that was not equalled for some twenty years. In the intervening period, the Pool maintained from 25% to 33% of the market, about 95% of which was acquired at inception.

156. From 1950 to 1961 there has unquestionably been a moderate increase in the Pool share of all grains marketed in Alberta. The years during and immediately following the Second World War saw a greater number of Alberta country elevators in operation than are present today. This enlargement was due to the back-up of grain during the war and the big crops of the early fifties, with the consequent demand for more storage. However, it is well known that technological change in most industries has brought about drastic plant rationalization since the war. The agricultural and grain industries have adapted accordingly to meet new demands. Consequently, the over-building during the war years forced higher operating costs in periods of smaller crops and lesser demand, resulting in uneconomical operation of many small country elevators. Greater dependance has been placed upon storage charges to earn revenue, a fact which has also contributed to the maintenance of small elevator points which would have been prohibitive if earnings had depended on handlings alone.

157. Such conditions have forced a move in the direction of consolidation in order to economically move producer grain to market. Foresight in this area permitted the Alberta Wheat Pool to prepare for this eventuality at various

times during the last twelve years. With one or two grain companies retiring from country elevator operations due to limited facilities and high costs of operation it is natural that the Alberta Wheat Pool would receive some patronage from previous deliverers to these concerns. It is submitted that this has been one of the main reasons behind the slight increase in Pool share of the grain market.

158. Consolidation of enterprise is not exclusive to the grain industry. There are many examples of similar economies being effected by the same method in today's business environment. Recent attention has been focused on the oil industry in this regard. Plant rationalization was recommended in the MacPherson Royal Commission Report for the railroad industry. The meat packing business has seen the gradual disappearance of smaller packing plants and an enhancement of large corporate concerns. Even at the retail level, chain grocery stores place continued pressure on the traditional groceteria.

159. There is little doubt that such methods are competitive tools in business enterprise and apply to Wheat Pool operation in the grain industry.

160. Coupled with the modern trend towards consolidation and larger corporate structures is the fact that less opportunity exists for business enterprise on a smaller scale. While some opportunity is provided to shareholders in corporate joint stock concerns to share in the benefits resulting from economies thus achieved, there is not the same obligation to return such benefits to corporate shareholders as exists in the case of co-operative members.

161. The relatively small-scale farmer has his position enhanced as the co-operative moves to greater efficiencies

in that benefits are returned via service at cost and patronage dividends. Simply, it means that although he retains his sovereignty in economic enterprise, he is afforded the opportunity of improving his return as an entrepreneur and maintaining his bargaining position at a time when the trend is towards big business.

162. By the same reasoning, the Pool as an economic institution benefits from the improved position of its members. Because of its economic nature, the marginal productivity of the organization's resources can only be equal to the marginal productivity of the resources of the individual members on a joint basis. Therefore, as the members' positions advance, the resources they allocate to the Pool as a result of the increase in functions they perform on a joint basis through it promotes its economic significance.

163. While this concept recognizes the Pool as an economic institution, it also places the proper emphasis on its function as being an institution to serve the membership rather than to serve itself. Consequently, as the institution benefits, the members benefit in direct proportion. The enrichment of the Pool organization results strictly from the enhanced position of the members and this is passed directly back to the members because the Pool is dedicated primarily to the economic welfare of its members at all times.

164. An extremely important consideration when viewing the success achieved by the Alberta Wheat Pool relates to the percentage of business done with its members. Appendix C, Table 1, indicates that since 1938-39, as far back as these statistics are available, member business with the Pool has never been less than 80% of total deliveries.

165. Currently, for the crop year 1960-61, the percentage of deliveries indentified with members reached 95.6%, only 0.2% less than the established record of 1958-59 which recorded 95.8%.

166. The very fact that the percentage of member business is so high and that it has been steadily increasing over the past 20-odd years, indicates that the farmer-owners appreciate the concept of the organization's operation on a "service-at-cost" basis which, in turn, acts to improve the individual's own economic position.

167. Closely related to the percentage of member business, is the freedom of all grain producers to deliver grain to the elevator of their choice. This basic right has not always been available to producers. Congested country elevators often prevented Pool members from delivering to Pool facilities. In the period from 1950 to 1958, when severe congestion prevailed due to high yields and limited export sales, many Pool elevators were unable to accept member grain.

168. It is therefore submitted that the percentage of member business both during the years before the implementation of the Bracken Report recommendations (43) and even at the present time could well have been higher than was and is the case.

169. The success and growth of the Alberta Wheat Pool has not been due to tax advantages nor to the fact that, as some contend, it has an access to interest free "forced" member loans. On the contrary, it has been due largely to the nature of the organization which creates

(43) Bracken, John: Report of the Inquiry into the Distribution of Railway Boxcars; 1958

in members a desire to patronize their own facilities. The Pool was formed as a result of a tremendous wave of popular enthusiasm engendered by resentment against the abuses prevalent in the grain trade. It was formed by farmers who were desperate to the point of putting their faith in an untried idea and contributing, in actual cash, over \$8,000,000 from the sale price of their grain. They own all of the assets and, through their democratically elected representatives, control the destiny of the organization. Each member, as he contemplates the Pool elevator at his shipping point, can say with pride, "I own a piece of that and I help to manage it in my own interests".

170. Careful management, following the highest ethical principles of doing business, and the loyalty of the members have, over the years, brought the Pool to its present enviable position where it occupies a place of high prestige in the minds of rural people and, indeed, people in all walks of life in the Province.

171. Further proof that the growth of the Pool has not been as a result of special tax concessions made to co-operatives can be demonstrated by the fact that capital expenditures of \$16,221,887 in the last 9 years for country and terminal elevator facilities, an office building, and forage seed handling facilities have been financed by funds from sources available to any other business. During this period money for capital expansion has been obtained from the following sources:

1. Capital Cost Allowances	\$12,397,071
2. Bank Loan	3,500,000
3. Earnings on which Income	
Tax was paid.	<u>1,132,108</u>
	<u>\$16,529,179</u>

172. It is interesting to note, however, that during the period in question cash patronage dividends paid to the members and retained by them have been equivalent to an average return of 5.4% on their total investment in the Pool. An organization with the prestige and financial stability of the Alberta Wheat Pool could quite easily have gone into the money markets and obtained these funds at a price no greater than the dividends paid to the members who loaned them to the Pool. Obviously, therefore, the argument that interest free "forced" loans have been a factor in the growth of the Pool cannot be supported in the light of these facts.

PATRONAGE DIVIDENDS AND THE
TAXABLE INCOME OF A BUSINESS

173. In matters involving the tax treatment of co-operatives in comparison with that accorded ordinary corporations, one of the central issues, if not the central issue, hinges on the acceptability of a distinction between corporate income and shareholder dividends on the one hand and the revenue and patronage dividends of the co-operative organization on the other. It is sometimes argued that because dividends paid by an ordinary corporation to its shareholders are not deductible from the corporation's taxable income, then equitable treatment would require that patronage dividends of a co-operative should not be deductible from the taxable income of the co-operative. The basis of this argument is the assumption that there is no essential difference between a dividend payment on share capital and a patronage dividend. This assumption is ill-founded.

174. Clearly shareholder dividends declared by an ordinary corporation and indeed earnings retained to the credit of shareholders arise as a residual return on the use and deployment of capital assets or capital funds contributed by the shareholder group. By reason of the way in which net income is calculated, this residual return must necessarily include any element of profit which may be present, as well as a payment for the use of shareholder capital. The fact which must be emphasized here is namely that the taxable net income of the ordinary corporation can only be defined as the residual earnings arising as profit and a return to owner's capital and clearly assignable as such to the capital contributing group. And it is not too much to say that the objective of the conventional business corporation in the long pull is to try to maximize-

the return to owners, i.e., to maximize the combined flow of profit and return on capital accruing to the shareholder group.

175. The prime motivation of the co-operative organization is not the same, however. Its objective is to maximize the returns to customer members. For this purpose, receipts of the organization are allocated according to a quite different principle and a quite different scale of priorities. For instance, residual receipts of the organization are viewed as being assignable to members as patrons and not to members as contributors of capital or as underwriters of financial risk. If an explicit rate of return on members' capital is recognized at all, it is specified as a limited and predetermined rate of return on member contributions. It is after such a calculation that remaining amounts of net receipts are allocated to members in proportion to patronage. The patronage dividend in this case is essentially the same as a price rebate, and the residual net receipts utilized need not even arise in the hands of the business if a different initial pricing policy were to be used. Where an explicit rate of return on members' capital is not specified, then the residual net receipts of the co-operative must be viewed as consisting of both an element of earnings on capital and an element of customer overcharges available for rebate to member patrons.

176. Hence the retained earnings and dividends declared by an ordinary corporation represent entirely a return to shareholders for the provision of finance and the assumption of risk attaching thereto. Patronage dividends declared by a co-operative on the other hand may often consist in part of a retroactive price adjustment in favour of member patrons of the co-operative. This component need only arise, as receipts to the co-operative because of the

widespread practice of pricing the services of the business initially at going market prices. Hence much of the difficulty concerning the matter of taxation of co-operatives arises from a failure to recognize that patronage dividends may often contain the two components just mentioned; and from the difficulty of separating the components in practice even when they are recognized in principle. The two components of a co-operative dividend require different tax treatment if the taxation of co-operatives is to be similar to that of ordinary corporations.

177. The portion of a patronage dividend which is a price adjustment in favour of the patron of a business cannot be said to come out of the income of the business. Indeed, present tax regulations recognize this even in the case of patronage dividends paid by ordinary corporations. Other examples of comparable pricing practices by ordinary corporations may serve to emphasize this point. A retail grocery store may offer five per cent of all marked prices on a certain day of the week. The income of the store calculated on any reasonable basis would include only the actual receipts at the cash register and not the additional five per cent difference between marked prices and those actually charged. Again, it is widespread practice in retailing to print on the package of a commodity, for example, "price marked is fifteen cents off regular price." The income of the business offering such an inducement is calculated from the price actually charged, not from the fictitious "regular" price. And again, a corporation which puts a "premium" of three new pennies in each package of its product deducts those pennies from its taxable income. In short, whatever promotional devices are used to dramatize price adjustments in favour of the customer, taxable income is calculated on the basis of actual prices after the adjustments

have been made. That portion of a patronage dividend which represents a price adjustment in favour of the patron is similar in nature to the above practices of ordinary business corporations. The retroactive price adjustment in the patronage dividend, like other promotional devices already mentioned, is simply another form of indirect price competition--and a form which is probably less upsetting to the competitors of the co-operative than would be direct price competition concentrated on the initial price. Hence similarity of tax treatment requires that the price adjustment portion of a co-operative's member dividends be deductible from taxable income of the co-operative, and that income ascribable to a return on equity capital be taxed in the same way as for ordinary corporations.

178. One form in which confusion between the two components of a patronage dividend appears is the argument that a co-operative cannot make true price adjustments in favour of its member patrons because it does not deal "at arm's length" with them. In other words, the argument is that there is no "adverse interest" between a co-operative and its member-patrons, so it is in principle impossible for the former to make price adjustments in favour of the latter. Now this argument is valid with respect to that portion of a patronage dividend which consists of return to investment, for here the patron-member of a co-operative is in a position similar to that of a shareholder in an ordinary corporation. But the argument is not valid with respect to that portion of a patronage dividend which consists of a price adjustment, for there the patron-member is in a position similar to that of an "arm's length" customer or supplier of an ordinary corporation. The member of a co-operative plays two roles. He is an owner of the organization, and he is one of its customers or suppliers. Because the two roles are combined in

the same individual, it is easy to confuse them, but the separation must be made if co-operatives are to receive tax treatment similar to that of ordinary corporations. The need for separation of the two roles involves the need for separation of the two components of patronage dividends.

179. The problem in applying this principle is, of course, the difficulty of satisfactorily separating the two components of the co-operative patronage dividend in practice. A common procedure for coping with such a problem is to assign an imputed "normal" rate of return. That is, a "normal" rate of return on equity capital could be applied to calculate the portion of patronage dividends which would appropriately be regarded as a return on equity investment and therefore taxable in the hands of the co-operative. The remainder of patronage dividends would be regarded as price adjustment. The level of the imputed "normal" rate of return would have to be struck by the taxing authority, but in the choice of a rate, a number of considerations are relevant:

- (1) The imputed rate of return on members' equity should reflect the most readily accessible investment alternatives in practice available, to the same general group of people involved as members of the co-operative. A good yardstick for marketing co-operatives might take reference to the rate of return generally available in the members' own type of business.
- (2) The choice of an imputed rate of return on the equity investment of a co-op member must recognize the fact that the ordinary corporation has already a considerable advantage

over the co-operative in the matter of raising capital. This is so by reason of a greater degree of share transferability facilitated by active and at times highly specialized markets for the trading of corporate shares.

- (3) The choice of an imputed rate of return must also recognize that "going" or "market" rates of return on equity investment in a wide variety of industries may well be considerably higher than what is here referred to as a "normal" return. In the present context, "normal" return means the profit and return to capital under perfectly competitive conditions. Most industries lie somewhere in a spectrum of possibilities between pure monopoly on the one extreme and perfect or atomistic competition on the other; what economists call "imperfect competition" prevails in most industries. But it is only under conditions of perfect competition that there is any assurance that a "normal" rate of return on investment will tend to prevail, that is, a return just sufficient to attract adequate amounts of capital and entrepreneurship to the industry so as to assure the lowest possible prices to consumers consistent with costs of production. It is very difficult without a great deal of study to place any particular industry within the spectrum of types of imperfect competition and to determine the extent by which its profits may have been augmented

by administered prices in a market slightly or substantially less than perfectly competitive . The point is that the "going" rate of return may exceed the "normal" rate by a margin that varies from industry to industry, and that "going" rates thus may be a poor measure of the "normal" rate.

- (4) In the choice of an imputed rate of return, the motivation of members must be considered who may willingly make contributions to a co-operative or other organizations at low or zero rates of return. If members subscribe capital only in order to qualify for patronage dividends, then a presumption is present that the patronage dividends contain an element of return on capital. However, if individuals contribute capital out of a willingness to sacrifice alternative investment income for the belief in the ideals of co-operative enterprise, then the return on investment component of patronage dividends is correspondingly reduced. Both motives presumably are present in different mixtures in different members of a co-operative. An indication of the importance of the idealistic motive is the disproportion which can exist between members' individual investments in the co-operative on the one hand and receipts of patronage dividends on the other. Those members who have a relatively high

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ratio of investment to dividends may be accepting voluntarily their relatively low rate of return on investment out of idealistic motives.

- (5) If there is to be no tax discrimination against co-operatives, that portion of patronage dividends which represents return on member investment should be granted the same dividend tax credit in the hands of the member that is granted to dividends received by persons holding shares of ordinary Canadian corporations. However, this provision, while fair, might prove exceedingly difficult to administer. It would require each individual who is subject to personal income tax and who receives patronage dividends to separate by imputation the two components of his patronage dividends and then to compute his dividend tax credit on the relevant portion. A less exact but much simpler means of compensating co-operatives for their present disadvantage under the provisions of the Canadian personal income tax respecting dividend tax credits would be an appropriate reduction, below the "normal" rate of return, of the imputed rate used to calculate a co-operative's taxable income.

180, It seems useful now to explore more fully the implications of the previous argument concerning co-operative earnings and price policy on the ability of ordinary corporations to compete with co-operative enterprises.

181. One general observation needs to be made at the outset. If it should turn out in particular industries or

in general that the co-operative method of carrying on business can out-compete other forms of business arrangement, then it is natural and desirable in the public interest for the co-operative forms to flourish relative to other types of enterprise. Arguments recommending policy which attempts arbitrarily to pace the growth of co-operatives with that of other enterprises in the same industry are senseless. The public interest lies in the direction of encouraging those enterprises, regardless of form, which can provide their products or services at lowest cost. In achieving this end, there is no reason to presume that the co-operative form need be at any particular advantage or disadvantage in finding and adopting the most efficient managerial and technological skills, processes, and equipment. But there are two other possible ways in which the co-operative enterprise may be able to perform its services more cheaply to the benefit of either consumers or producers. In the first place, the philosophy and motivation of a co-operative enterprise are such that the members are committed to a limited rate of return on capital. This would certainly exclude any drive for elements of monopoly profits even if such elements were available to owners of other enterprises in the industry. Secondly, a voluntary commitment to a limited return on capital might well indicate a willingness to supply capital at something less than a "normal" return under long-run perfectly competitive conditions. One reason why members might be willing to supply capital at a low return could be their desire for the assurance, available through co-operative organization and patronage dividends, that they are not being exploited by the going market price; such assurance is valuable even in the

absence of actual exploitation.

182. The first of these possibilities simply means that in an industry already characterized by elements of imperfect competition, the co-operative organization will be able to offer more favourable final prices consistently. This is so since the co-operative organization will offer a final price on its services such as to yield a normal or competitive rate of return on capital and not necessarily the maximum yield that conditions in the market will permit. The growth of co-operatives under these circumstances can only resound to the benefit of society as a whole just so long as enough support of capital can be found to accept a limited return when others in the industry may be receiving more. If there are not enough offers of capital on this basis, then the growth of the co-operative movement will automatically be self-limiting without any help from public policy. And as everybody knows, the financing of co-operative enterprises on this basis has always constituted one of the most severe limiting factors to the viability of the co-operative movement. Where the final prices charged for the services of the co-operative are struck so as to yield a normal return to capital, the pressure exerted on other firms in the industry is to do likewise, but no more. Given the same general level of technical and managerial efficiency, other firms cannot be pushed below this rate of return to capital. They may also earn in excess of this rate by competing on a non-price basis in a variety of ways.

183. The second possibility mentioned earlier is the case where a significantly large number of individuals dedicated to a co-operative ideal may be willing to contribute organizational effort and capital at zero or in any event something less than a normal rate of return. In this case, final prices

available to member-patrons of the co-operative could be so favourable as to place conventional competitor firms under severe long-term pressure. Once again, the extent of this pressure would depend on the effectiveness of non-price competition on the part of conventional firms. In the long-run, however, higher-priced capital and organizational skills are likely to be withdrawn from the industry gradually in efforts to seek more lucrative opportunities in other industries. Where this withdrawal is orderly, there is no economic objection to this process from the point of view of entrepreneurial orientation and overall capital utilization in the economy. The real difficulty, however, is that of making certain that member patrons are not in fact receiving more than a nominal return on capital through part of the patronage dividend, and that their continued patronage does not depend in any way on their doing so. Hence the possible need for the arbitrary assignment of a limited rate of return on co-operative equity capital for tax purposes. However, if the rate assigned is any higher than that actually required by member patrons of a given co-operative, then the tax system will be discriminating against the price advantages which the co-operative firm can offer to users as contrasted to those which the conventional corporation can offer.

184. On more specific tax matters, it has sometimes been argued that co-operatives under present tax arrangements are in a position to raise additional capital via retained patronage dividends on which no corporate tax has been levied. As already noted, this argument is invalid to the extent that the retained patronage dividend is returned to the business out of a price rebate to members rather than out of earnings on members' equity investment. What is crucial here is a

recognition of the kind of receipts which are retained by or returned to the business rather than the fact that receipts have been retained. Moreover, ordinary corporations are permitted to retain portions of profit and capital earnings of shareholders on which the payment of personal tax may be long or indefinitely delayed. This process will ordinarily lead to an automatic gradual increase in the net asset value and earnings per share-- and hence market value per share. Shareholders will then be in a position to take their accumulated earnings as a non-taxable capital gain. Even where shares are split, or a stock dividend is issued to mask the effects of price appreciation per share, the same possibilities exist for shareholders as just outlined above. Or again, in an effort to delay further the personal tax liability of shareholders, the company may offer share purchase warrants to existing shareholders at attractive discounts so as to provide opportunity for capital gains in lieu of cash dividends.

185. In practice therefore, the ordinary corporation has long been in a position to acquire involuntary capital contributions from earnings on equity capital of shareholders on which tax has been assessed at only one level. Moreover, in the case of the ordinary corporation where dividends to shareholders in Canadian companies are entitled to the twenty per cent dividend tax credit, this greatly reduces the effective personal tax rate applicable to paid out corporate income. Yet no such exemption is available to members of a co-operative enterprise with respect to any part of patronage dividends. Nor is it possible to postpone at all the personal tax liability on receipts due co-operative members but retained by the organization and credited to members' accounts. As noted earlier, such retained patronage dividends

become further capital contributions of members rightly enough, but what is important here is that they do not arise from profits or a return on previous capital invested in the co-operative facilities. Rather they arise as personal income or benefits due to more favourable final than initial prices, and benefits which are identifiable directly with the primary production or consumption activities of members.

APPENDIX "A"

APPENDIX A

ROCHDALE PRINCIPLES

1. Democracy of control.. --Each member shall have one vote and no more.
2. Limited interest on capital. --Capital invested in the society, if it receives interest, shall receive not more than a fixed percentage which shall be not more than the minimum prevalent rate.
3. Savings-returns. --If a surplus-saving ("profit") accrues from the difference between the net cost and the distribution price of commodities and services, after meeting expenses, paying interest (wages to capital), and setting aside reserve and other funds, the net surplus-saving shall be used for the good of the members, for beneficent social purposes, or shall be returned to the patrons as savings-returns ("dividends") in proportion to their patronage.
4. There shall be unlimited membership. No reason shall exclude a person from membership except that his purpose might be to injure the society.
5. A co-operative society shall be composed of individuals who voluntarily join.
6. Business shall be done for cash.
7. A certain percentage of the surplus-savings shall be used for educational purposes in the field of co-operation.
8. There shall be political and religious neutrality.
9. Beginning with distribution or the rendering of service to the members, the society shall aim to expand its business, to unite with other societies, to produce the things which the members need, and finally to secure access to raw materials.

APPENDIX "B"

APPENDIX B TABLE 1
CO-OPERATIVE MERCHANDISING IN RELATION TO TOTAL RETAIL SALES IN CANADA

Total Retailing and Groups of Products for Selected Post-War Years
In Millions of Dollars and Percentages⁽¹⁾

Year	All Products		Food Products (ii)		Clothing and Furnishings		Petroleum Products and Auto Accessories		Feed and Fertilizer (iii), (iv)		Hardware (v)		Machinery and Equipment (vi)		Coal, Wood and Building Materials		All Other	
	Co-op Sales	Total Retail %	Co-op Sales	Total Retail %	Co-op Sales	Total Retail %	Co-op Sales	Total Retail %	Co-op Sales	Total Retail %	Co-op Sales	Total Retail %	Co-op Sales	Total Retail %	Co-op Sales	Total Retail %	Co-op Sales	Total Retail %
1947	127	6,964 1.8	28	1,176 2.4	4	793 0.5	15	362 4.1	53	237 22.4	-	158 -	2	122 1.6	8	339 2.4	17	3,777 0.
1952	235	11,532 2.0	58	2,203 2.6	8	1,196 0.7	25	507 4.9	89	285 31.2	-	232 -	16	250 6.4	16	604 2.6	23	6,255 0.
1957	284	14,826 1.9	75	3,975 1.9	9	1,414 0.6	47	939 5.0	100	333 30.0	-	302 -	10	184 5.4	22	780 2.8	19	6,899 0.
1958	296	15,444 1.9	82	4,246 1.9	10	1,441 0.7	52	1,037 5.0	101	374 27.0	18	318 5.7	9	206 4.4	17	808 2.1	8	7,014 0.
1959	333	16,284 2.0	94	4,464 2.1	12	1,485 0.8	58	1,104 5.3	109	391 27.9	21	326 6.4	11	251 4.4	20	834 2.4	8	7,428 0.
1960	366	16,502 2.2	102	4,699 2.2	12	1,487 0.8	64	1,145 5.6	116	330 35.2	26	326 7.8	13	259 5.0	24	760 3.2	9	7,497 0.
1961	388	16,664 2.3	106	4,806 2.2	12	1,502 0.8	70	1,153 6.1	122	n.a. n.a.	26	328 7.9	16	241 6.6	24	757 3.2	12	7,877 0.

Source: As in R. Craig Melvor, Recent Growth in Canadian Co-operatives (Canadian Tax Foundation, Canadian Tax Papers No. 28, June 1962), pp. 5, 23, with additions and revisions from Co-operation in Canada (Economics Division, Marketing Service, Department of Agriculture, Ottawa) and D. B. S., Retail Trade.

- (i) All "%" figures measure the ratio $\frac{\text{Co-operative sales of commodity "X"}}{\text{Total retail sales of commodity "X"}}$. These percentages indicate trends in co-operatives' share of various markets, but, while they illustrate the general smallness of the share of co-operatives, they do not measure co-operatives' shares exactly because definitions underlying data for co-operatives are not identical with those for total retailing. For example, all department store sales are included in the residual Group "All Other" for total retailing, so total retail sales of specific groups of commodities sold by department stores are understated and the co-operatives' share of these markets is correspondingly overstated.
- (ii) Beginning in 1955, D. B. S. included various items including beer and liquor under "Food Products" rather than under "Miscellaneous". This explains the apparent drop in co-operatives' share in these sales from 1952 to 1957 above. Excluding alcoholic beverages, co-operatives' share of "Food Products" was about 3 per cent in 1961.
- (iii) Total retail figures not available, so figures used instead are gross selling values at factory from D. B. S., The Fertilizer Manufacturing Industry, Manufacturers of Mixed Fertilizers, and The Feed Industry.
- (iv) New classifications introduced by D. B. S. in 1960 caused the apparent drop in the "Total Retail" figure for that year, and most of the apparent increase in co-operatives' share.
- (v) Co-operatives' sales of hardware included in their sales of machinery and equipment until 1958.
- (vi) Total retail figures not available, so figures used instead are sales of farm implements and equipment including repair parts, valued at wholesale prices, from D. B. S., Farm Implement and Equipment Sales.

APPENDIX B TABLE 2
CO-OPERATIVE MARKETING SALES IN RELATION TO FARM CASH INCOME
FROM THE SALE OF FARM PRODUCTS IN CANADA

Main Product Groups for Selected Post-War Years
In Millions of Dollars and Percentage (1)

(11) Year	All Farm Products			Grains and Seed			All Products Except Grains and Seed			Fruits and Vegetables			Livestock			Eggs and Poultry			Dairy Products			Tobacco		
	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%
1947	579	1,967	29	283	650	44	296	1,317	23	44	139	32	92	496	19	26	172	15	83	326	25	44	49	89
1952	840	2,849	29	430	1,081	40	410	1,768	23	37	180	21	164	696	24	21	246	9	130	399	33	45	67	67
1957	825	2,575	32	377	660	57	448	1,915	23	30	105	35	200	813	23	39	277	11	167	460	36	2	77	3
1958	895	2,795	32	369	656	56	526	2,139	25	43	157	27	249	961	26	33	298	11	186	496	37	5	84	11
1959	963	2,789	33	367	683	54	596	2,106	28	42	156	27	287	935	31	39	278	14	216	514	42	2	90	2
1960	972	2,782	35	378	684	55	595	2,098	28	41	186	22	277	885	31	42	274	15	220	518	42	2	96	2
1961	1,018	2,959	34	427	724	59	591	2,235	26	33	171	19	270	1,002	27	44	283	16	229	534	43	2	103	2

Source: As in R. Craig McIvor, Recent Growth in Canadian Co-operatives (Canadian Tax Foundation, Canadian Tax Papers No. 26, June 1962), pp. 19, 20, with additions and revisions from Co-operation in Canada (Economics Division, Marketing Service, Department of Agriculture, Ottawa) and D. B. S., Cash Income from the Sale of Farm Products.

(1) All "%" figures measure the ratio

Co-operative sales of product "X"
Farm cash income from sale of product "X"

(11) Co-operative marketing data relate to crop years (ending July 31) and are matched with farm income data for the calendar year in which the crop year ends.

APPENDIX B TABLE 3

CO-OPERATIVE WHOLESALING IN RELATION TO
TOTAL WHOLESALING IN CANADA

In Millions of Dollars and Percentages

<u>Year</u>	<u>Co-operative Wholesale Sales</u>	<u>Total Wholesale Sales</u>	<u>Co-operatives' Share (i) of Total</u>
1951	\$ 141 m.	\$ 5,744 m.	2.5 %
1953	127	6,242	2.0
1955	164	6,750	2.4
1957	219	7,466	2.9
1959	287	8,256 (i)	3.5
1961	319	8,932	3.6

Source: Co-operative sales from Co-operation in Canada (Economics Division, Marketing Service, Department of Agriculture, Ottawa). Total wholesale sales from D.B.S., Wholesale Trade, and do not include business transactions of manufacturers' sales branches or agents and brokers.

- (i) These percentage figures are not very meaningful measures of co-operatives' precise share of the market, partly because figures for total wholesale sales exclude certain transactions which might be called wholesaling. The percentages are useful in that changes in them through time reflect the direction of change of co-operatives' share of the market.

APPENDIX "C"

APPENDIX C TABLE 1

COMPARISON OF GRAIN MARKETING - 1923 to 1961

(1) Year	(2) Alberta Wheat Pool Wheat Deliveries (i)	(3) Provincial Wheat Deliveries (ii)	(4) Alberta Wheat Pool Percentage (Wheat)	(5) Alberta Wheat Pool Elevator Receipts (iii) (All Grains)	(6) Total Elevator Receipts (iv) (All Grains)	(7) Alberta Wheat Pool Percentage (All Grains)	(8) Percentage Of Deliveries Identified With Members	(9) Number Of Alberta Wheat Pool Country Elevators
	Bushels	Bushels	%	Bushels	Bushels	%	%	
1923-24	14,222,814	132,167,028	23.9	-	107,699,558		NA	-
1924-25	23,028,393	50,957,400	39.0	290,015	105,588,077	0.3	NA	3
1925-26	45,149,103	94,100,117	48.0	7,216,739	105,588,077	6.8	NA	3
1926-27	44,287,382	95,533,010	46.4	30,057,604	170,205,418	16.8	NA	162
1927-28	71,116,189	152,709,060	46.6	50,386,563	170,205,418	29.6	NA	46
1928-29	67,168,771	147,710,882	45.5	32,415,230	91,986,821	35.7	NA	317
1929-30	35,442,410	78,656,217	45.0	36,552,839	125,045,127	29.2	NA	438
1930-31	39,964,423	112,188,970	35.6	41,609,546	152,216,708	27.3	NA	438
1931-32	34,444,865	122,088,475	28.2	40,191,705	167,763,242	23.9	NA	439
1932-33	43,561,533	145,027,075	30.0	27,091,540	104,971,697	25.9	NA	439
1933-34	23,295,975	88,267,464	26.4	30,896,774	114,379,676	27.0	NA	439
1934-35	26,215,062	94,561,776	27.7	27,109,108	94,920,279	28.6	NA	438
1935-36	24,005,613	82,038,922	29.3	19,002,042	70,300,814	27.0	NA	433
1936-37	15,109,337	53,058,447	28.5	22,954,681	86,975,807	26.4	NA	429
1937-38	16,880,316	61,552,800	27.4	44,506,854	152,410,119	29.2	80.2	426
1938-39	39,182,336	130,964,206	29.9	43,501,785	154,954,105	28.1	81.4	426
1939-40	40,478,987	134,914,678	30.0	49,740,720	180,358,139	27.6	86.0	425
1940-41	43,804,408	154,951,321	28.3	22,816,297	82,021,445	27.9	86.0	425
1941-42	19,349,239	67,516,313	28.7	34,997,128	125,369,026	28.1	89.5	424
1942-43	22,969,803	77,638,355	29.6	41,528,912	142,482,863	28.9	90.0	436
1943-44	27,237,430	90,780,888	30.0	42,729,358	101,051,008	32.8	91.9	436
1944-45	28,233,752	91,368,541	30.9	51,947,269	163,418,959	31.5	91.2	436
1945-46	22,403,207	65,675,680	33.8	33,194,505	133,255,122	35.1	92.3	436
1946-47	36,281,753	107,389,759	33.8	44,685,967	152,536,748	37.4	92.3	436
1947-48	28,648,454	80,508,152	35.6	55,575,595	131,976,233	36.9	94.8	436
1948-49	34,376,356	94,134,927	36.5	49,380,178	137,486,047	34.5	92.9	436
1949-50	34,166,683	97,730,012	35.0	50,121,822	222,749,012	34.5	92.9	436
1950-51	35,925,914	95,190,505	37.8	79,927,178	240,962,217	32.2	92.2	436
1951-52	46,190,670	127,747,799	36.3	86,186,415	174,510,853	35.7	92.2	436
1952-53	46,346,038	134,204,015	34.5	92,420,190	150,859,078	36.7	94.0	436
1953-54	35,161,767	109,984,220	32.0	61,121,190	154,626,569	39.6	94.8	436
1954-55	35,407,287	94,909,673	37.3	56,888,650	159,276,959	35.7	94.8	436
1955-56	34,654,347	92,582,377	37.4	61,121,190	148,577,794	41.5	95.6	436
1956-57	37,168,755	98,188,929	38.0	56,888,650	148,577,794	41.5	95.6	436
1957-58	35,860,285	88,057,337	39.9	59,692,295	148,577,794	41.5	95.6	436
1958-59	37,798,169	94,725,129	42.4	59,140,577	148,577,794	41.5	95.6	436
1959-60	38,920,910	91,701,129	44.1	59,140,577	148,577,794	41.5	95.6	436
1960-61	38,946,491	88,362,928	44.1	59,140,577	148,577,794	41.5	95.6	436

(i) Includes all Pool member wheat deliveries to Pool elevators, Line elevators, or over platforms.

(ii) Total farmer deliveries to Pool elevators, Line elevators, or over platforms.

(iii) Represents all grain marketings through Alberta Wheat Pool elevators. Since the Pool elevator system was not completed until the 1929-30 crop year, considerable amounts of grain were handled through non-Pool facilities until the early 1930's.

(iv) Includes both Pool elevator receipts and Line elevator receipts for Alberta.

APPENDIX "D"

APPENDIX D TABLE 1

Patronage Dividends Paid to Alberta Wheat
Pool Members - 1926 - 1961 Inclusive

<u>Year</u>	<u>Patronage Dividends</u>		<u>Reserve Purchases</u>
	<u>Cash</u>	<u>Reserves</u>	
1926-27	327,196.05	-	-
1927-28	960,262.13	-	-
1928-29	488,570.13	-	-
1929-30	-	-	-
1930-31	-	-	-
1931-32	-	-	-
1932-33	-	-	-
1933-34	-	-	-
1934-35	-	-	-
1935-36	-	-	-
1936-37	-	-	-
1937-38	-	-	-
1938-39	89,046.00	-	-
1939-40	91,988.60	-	-
1940-41	213,873.45	256,627.84	-
1941-42	196,554.00	-	423,391.53
1942-43	306,762.65	-	402,221.96
1943-44	311,511.84	1,121,442.80	382,110.86
1944-45	160,521.86	590,717.90	-
1945-46	376,404.47	376,404.47	1,287,509.09
1946-47	201,726.25	685,044.71	895,719.93
1947-48	164,583.25	492,450.03	1,055,842.69
1948-49	406,702.60	812,936.36	380,100.15
1949-50	402,654.60	604,080.16	450,003.63
1950-51	401,353.97	1,043,568.29	604,268.46
1951-52	569,310.72	1,651,027.81	1,099,021.04
1952-53	587,140.76	1,908,160.10	1,657,811.36
1953-54	596,958.87	1,620,041.57	500,571.70
1954-55	427,019.84	689,255.89	704,344.31
1955-56	331,961.11	414,964.74	523,809.99
1956-57	371,635.52	661,983.37	394,455.48
1957-58	548,587.32	1,636,889.96	381,170.69
1958-59	766,190.07	2,317,144.25	400,324.96
1959-60	547,339.81	1,645,337.30	645,553.44
1960-61	642,764.82	1,884,140.34	1,023,027.15
1961-62	1,465,999.99	1,118,939.97	1,172,856.82

APPENDIX D TABLE 2

Cash Patronage Dividends Accruing To Farmers

In Selected Trading Areas - 1961-62

<u>Trading Centre</u>	<u>Cash Patronage Dividends Paid to Farmers Delivering To Selected Elevator Points</u>
Vulcan	\$ 9,911
Foremost	8,320
Alliance	9,638
Three Hills	10,355
Eckville	3,591
Wainwright	17,783
Barrhead	13,740
Falher	20,666

APPENDIX "E"

APPENDIX E TABLE 1

ALBERTA WHEAT POOL EDUCATIONAL DONATIONS
1961 - 1962 CROP YEAR

Farm Young People's Week	\$ 1,076
Banff Leadership Techniques Course	500
Rural Leadership Conference	500
4-H Garden Clubs	3,246
Field Crops Clubs	1,839
4-H District Camps	450
Scholarships and Bursaries	3,500
Home Economics Scholarships	400
Henry Wise Wood Bursaries	810
* Teacher Training Program	353
Alfalfa Research Grant	3,500
Canadian Association of Adult Education	<u>200</u>
TOTAL	<u><u>\$ 16,374</u></u>

- * Initiated in Crop Year 1962-63 so therefore does not actually fall within expenses for the 1961-62 year. It is included here however because the first course was held in August 1962. A grant of \$400 is available.



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

J-H. Ranch,
Walsh, Alberta.
July 23/63

Mr. G. L. Bennett,
Royal Commission on Taxation,
Box 466, Ottawa.

Your File No.: 520-6-10

Dear Mr. Bennett:

Thank you for your recent communications about
my proposed submission to the Royal Commission on Tax-
ation.

For reasons which I will suggest later, I have
decided not to prepare and present a brief to the present
commission. I have come to this decision very reluctant-
ly as I am sure there are taxation matters peculiar to
cattlemen in particular and farmers in general, that
should be discussed on an occasion like this.

I had hoped to prepare a presentation dealing
with 3 phases of federal taxation as they relate to
agriculture. These are:

1.-The use, misuse and abuse of our greatest natural
resource (in the cattle industry) - namely, grass - due
in part at least to income tax. I suggest that during
drought years cattlemen carry far too many cattle for
the long range conservation of their grass. They do this
because of the tax position they would find themselves
in if they sold down to a point where their grass reserves
would support a proper number of cattle. We have had a
good example of this during the last 4 years in Southern
Alberta. The existing provisions for a basic herd and
the 5 year average are not sufficient to take care of
this situation.



1 2.-The outlook for the so-called Family Farm. The best
2 of our young farmers are leaving the agricultural field
3 for lack of incentive to remain. The trend to fewer
4 farmers on larger farms is a natural development of our
5 times - but ways and means must be found to keep the
6 very best and not just the tail-enders who can't make a
7 success in the cities. The need for agricultural credit
8 is involved here. Agricultural prosperity in itself is
9 no reason to increase taxes. The surest way to remove
10 the incentive of young farmers is to take a higher portion
11 of their reasonable profits as taxes.

12 3.-The application of the inheritance tax to farmers
13 in general. Because farmers are generally individual
14 operators instead of companies or corporations, estate
15 taxes are more severe on farmers generally. Farmers are
16 inclined to feel they cannot afford to retire - or sell
17 out to their sons. Incorporation is not a natural devel-
18 opment to the way of life of a family farm - even as a
19 means to reduce taxes. The total revenue from estate
20 taxes in Canada from farms is small enough that consider-
21 ation might be given to abolish this tax completely.

22 In general, farmers are still basically
23 independent and wish to remain so - in spite of massive
24 assistance in the form of subsidies, etc., from govern-
25 ments. Agriculture - on a family basis, is the last
26 genuine source of rugged individualism in Canada today.
27 Genuine farmers would prefer to keep themselves in times
28 of depression and drought by the reserves they should be
29 holding over from the good production years. Our present



1 taxation system makes this impossible to do. I think we
2 would be glad to exchange government assistance supplied
3 during hard times for a do-it-yourself deal!

4 I am not against taxes. The farmer who doesn't
5 pay income taxes today is not enjoying a very good
6 standard of living. It seems to me that agriculture
7 needs some special tax provisions that will encourage
8 conservation of our natural resources - grass and water,
9 and will strengthen and encourage the continuation of
10 the family farm as a way of life.

11 The above is a very rough outline of what I had
12 proposed to discuss before the Commission. My reasons
13 for deciding against a presentation are as follows:

14 1.-Recent good rains in Southern Alberta have
15 brought on a tremendous grass growth all over
16 our drought areas. While my views as expres-
17 sed in #1 remain unchanged - it becomes a
18 more difficult job to argue this line -
19 literally in the midst of plenty.

20 2.-Tax officials have pointed out that some of
21 my criticisms may be applicable to a cash
22 basis but can be corrected by switching to
23 an inventory basis.

24 3.-I would be less than truthful if I did not
25 admit that I have not been able to do the
26 necessary background work to properly prepare
27 a worthwhile brief.

28 I have noted the schedule of the Calgary hearings
29 and will try to sit in on one day of these hearings.



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

-4-

1 Would you please advise the members of the Royal
2 Commission of my decision not to participate and express
3 my thanks for the consideration so far received.

4 Sincerely,

5 (Signed) Bert Hargrave.
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August 15, 1963.

The Chairman,
The Royal Commission on Taxation.

Dear Sir:

We are pleased to submit, for your consideration,
the attached brief outlining how certain features
of the present taxation structure affect the
operations of Calgary Power Ltd.

Yours faithfully,

(Signed) G. H. Thompson.

G. H. Thompson
President.

GHT:jl



ANGUS. STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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SUBMISSION

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TO THE

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ROYAL COMMISSION ON TAXATION

10

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BY

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CALGARY POWER LTD.

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For Submission at Hearing

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Commencing August 21, 1963

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at

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Calgary, Alberta.

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CALGARY POWER LTD

BRIEF TO ROYAL COMMISSION ON TAXATION

1. This brief is respectfully submitted by Calgary Power Ltd. to the Royal Commission on Taxation with the object of drawing the Commission's attention to certain features of the taxation structure as they affect the Company as a producer and distributor of electric power.
2. Calgary Power Ltd. is a company incorporated under the Companies Act of Canada, having its head office in the City of Calgary, and is engaged principally in the business of generating and distributing electricity in the Province of Alberta. The Company supplies two-thirds of the electric energy consumed in the Province, serves directly and through wholesale contracts some 225,000 customers, and is the largest electric utility operating in Alberta.
3. Calgary Power Ltd. is of the opinion that a critical examination of the tax structure is long overdue and that your Commission can be of lasting benefit to Canada by drawing attention to the need for an overhaul of the entire system of taxation at the various levels of government, having regard to the country's social and economic needs. The Company further believes that it is not only desirable but essential that the burden of taxation as far as possible be fair and non-discriminatory.
4. The Company is aware that the Commission has



- 1 4. listened to much of the general philosophy of
2 taxation during its hearings, and it therefore
3 proposes to confine this brief to what it
4 believes is the unfair impact of the Income
5 Tax Act on the investor-owned electric utilities
6 in Canada, and on Calgary Power Ltd. in particular.
- 7 5. The investor-owned electric utilities are
8 essentially provincial in character, and are
9 subject to provincial control in respect of
10 extensions of service, rates, capital expend-
11 itures, financing and, in fact, all their
12 operations.
- 13 6. Calgary Power Ltd. is a regulated utility under
14 the jurisdiction of the Public Utilities Board
15 of Alberta. In the determination of rates the
16 Company is permitted under regulation to earn
17 not more than a fair return on its invested
18 capital. Income taxes are considered as an
19 expense and are allowed as a deduction from
20 operating revenue in calculating the fair return.
21 Taxes, therefore, as a result of the regulatory
22 formula, are in effect shifted to the consumer.
- 23 7. The Company is obligated to provide, on a
24 continuing basis, for the growing needs of all
25 present and future power consumers in its service
26 area and in the ordinary course of its business must
27 frequently obtain substantial sums for expansion
28 through the sale of share and debt capital as
29 well as through the reinvestment of earnings.
30 Since bond interest is a deductible expense,



- 1 7. income tax becomes a tax on the return earned
2 on the share or risk capital. Under these
3 circumstances the income tax operates as a direct
4 and very significant part of the cost of
5 financing the enterprise.
- 6 8. In the electric utility industry the ratio of
7 capital to revenue is particularly high and
8 since income taxes are closely related to the
9 amount of capital required for the business,
10 the impact of income taxes on the electric
11 utility industry is extremely heavy. The
12 company's income tax amounts to between 15 and
13 20 per cent of its gross revenue as compared
14 to some 4 or 5 per cent for the manufacturing
15 industry generally.
- 16 9. The need for the Federal Government to secure
17 revenue from all sectors of the economy is fully
18 recognized. The Company is not seeking to
19 avoid taxation, but it does seek redress from,
20 and desires to stress, the harmful discrimination
21 which now exists between its customers and the
22 customers of the provincially-owned and
23 municipally-owned electric utilities. Calgary
24 Power customers in their electricity bills
25 bear a share of the costs of the Federal Govern-
26 ment while the customers of provincially-owned
27 and municipally-owned electric utilities do
28 not.
- 29 10. The implications and consequences of Federal
30 taxation of investor-owned utility systems and



10. the exemption of those provincially-owned and municipally-owned, have heretofore been recognized by the Federal Government. The Dominion-Provincial Tax Agreement Act of 1947 provided that 50 per cent of the income tax paid by the investor-owned electric utilities would be rebated to the Province which rebate is still being continued. This payment of half the Federal tax to the Province lessened the incentive for the provinces to "take over" the investor-owned electric utilities, but it did not lessen the discrimination between the consumers of an investor-owned utility and those of a provincially-owned or municipally-owned electric utility in the same province. In 1952, the Federal Government decreased the income tax on investor-owned electric utilities by 7 points below the then standard corporate tax rate of 50 per cent. To this extent, the discrimination between the consumers of privately-owned and provincially-owned electric utilities was relieved by this 7 points. Such relief has since been gradually reduced to only 2 points. These measures to alleviate the problem were inadequate to prevent "takeovers" by some provincial governments on the pretext of saving money for the consumer by avoiding payment of income tax to the Federal Government. As a side effect, these "takeovers" will aggravate the situation by contracting the



- 1 10. taxation base and reducing the revenue to the
2 Federal Government, and thereby increase the
3 tax burden on the remaining taxpayers, including
4 the investor-owned electric companies. The
5 tendency for further "takeovers" would seem
6 likely to continue unless this discrimination
7 can be eliminated.
- 8 11. Calgary Power's undertaking is flanked by tax
9 free provincially-owned systems in the adjoining
10 provinces and, to compound the difficulty, there
11 are municipally-owned systems within its own
12 service area which likewise pay no income tax
13 to the Federal Government.
- 14 12. Calgary Power's customers also carry the additional
15 burden of the Old Age Security Tax whereas those
16 of provincially-owned and municipally-owned
17 systems make no such contribution.
- 18 13. There are obviously a number of ways in which
19 the discrimination could be eliminated, but
20 the Company feels it would be going outside
21 its proper sphere if it made suggestions as
22 to how others might be taxed. It therefore
23 confines this brief to pointing out to your
24 Commission the seriousness of the discrimination
25 as it now exists in Canada.
- 26 14. Calgary Power appreciates the opportunity of
27 presenting to your Commission the fundamental
28 facts of a tax situation which is of vital
29 concern to the Company, to its customers and
30 to all other investor-owned electric utilities



ANGUS. STONEHOUSE & CO. LTD
TORONTO, ONTARIO

- 8 -

1 14. in Canada.

2 Respectfully submitted.

3
4 CALGARY POWER LTD.

5
6 (Signed) per G. H. Thompson
7 President.

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9 Calgary, Alberta.

10 Dated: August 15, 1963.

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ROYAL COMMISSION ON TAXATION

HEARINGS

HELD AT

REGINA
SASK.

VOLUME No.:

43A
BRIEF

DATE:

AUG. 23, 1963

OFFICIAL REPORTERS
ANGUS, STONEHOUSE & CO., LTD.
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TORONTO, CANADA

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SUBMISSION

OF

THE CANADIAN MINING INSTITUTE
OF MINES

BRIEF TO THE ROYAL COMMISSION
ON TAXATION



SASKATCHEWAN CHAMBER OF MINES

BRIEF TO THE ROYAL COMMISSION

ON TAXATION

SUMMARY

The Saskatchewan Chamber of Mines suggests that there are inadequate incentives in the Income Tax laws of Canada for individuals and un-incorporated associations to expend their resources in the exploration and development of our mineral resources. To create the desirable expansion in mineral exploration, the Chamber recommends that "The Income Tax Act," be amended to permit any expenditure, whether directly or through an un-incorporated association, to be deducted in computing income if such expenditure is made in the prospecting, exploration or development by him in searching for minerals in Canada.

BRIEF

1. The Saskatchewan Chamber of Mines is and organization interest in the promotion of the mining industry in the Province of Saskatchewan. Membership is open to individuals, un-incorporated associations and companies interested in furthering the objectives of the organization. Membership is unrestricted. Among its members are producing mining companies, pre-production companies, service companies and suppliers, geological and mining consultants and other individuals. The Saskatchewan Chamber of Mines have annually approximately 90 members.



1 2. The Canadian mining industry is a major factor
2 in the economy of the nation and stability and growth
3 in the mining industry is an important factor in the
4 general economy. Canada, over the years, has produced
5 great wealth in the form of mineral production and there
6 is room for the development of further mineral wealth.
7 Adequate tax incentives are an important factor leading
8 to the discovery and development of mineral resources.

9 3. The staking of mineral claims is a measure of
10 the level of exploration and development. In Saskatche-
11 wan until 10 years ago, the number of claims staked
12 annually numbered about 1,000. Thereafter the boom in
13 the exploration for uranium deposits boosted this total
14 many fold, but in the last 3 years the volume of claims
15 staked has returned to the former level. In the
16 calendar year 1961 there were 1,019 claims recorded.
17 At the same time 869 claims lapsed, which were not re-
18 instated.

19 4. The size of each mineral claim in Saskatchewan
20 is approximately 40 acres. The staking of 1,000 mineral
21 claims in one year, therefore, amounts to less than 65
22 square miles. There are in Saskatchewan's portion of
23 the Precambrian Shield, some 90,000 square miles.

24 5. Another indication of the level of activity in
25 the development of Precambrian resources is the number
26 of miners' licences issued. In 1961 there were 206
27 miners' licences sold and in 1962 there were 126. With
28 this level of numbers of people actively engaged in
29 prospecting for minerals in the 90,000 square miles
30 available for prospecting and realizing that the area that



1 can be prospected in a season is limited, it can be
2 readily seen that the level of activity would have to be
3 appreciably increased to make an in-road in the total job
4 waiting to be done. In Saskatchewan there is production
5 in the Flin Flon area from the original Hudson Bay Mining
6 and Smelting Company mine and from the Coronation Mine
7 at Beaver Lake. The Flin Flon area was discovered early
8 in the century and came into production early in the
9 1930's. There are also 2 uranium mines in the Beaver
10 Lodge area. The latter arose from the demand for uranium
11 in the early 1950's and the fevered prospecting which
12 resulted. The Coronation Mine is expected to close
13 some time in the Summer of 1963 and it is reported that
14 one of the uranium mines will close by early 1964, at
15 which time only 2 metal mines will be operating in
16 Saskatchewan.

17 6. There is very little statistical data available
18 on how new mines in Canada are discovered. "The
19 Northern Miner" in 1954 (issue of November 25th, 1954)
20 summarized the information available on how new mines
21 are discovered. The result of their study shows that for
22 the 77 new ore bodies dealt with (all those discovered
23 in the 10 years following the War) 47% were discovered
24 by basic prospecting. The remainder were discovered by
25 diamond drilling and by geophysical methods. A similar
26 study of the past 10 years may not show the same picture,
27 but basic prospecting is still the primary method of
28 discovering new mines. This brief is concerned with the
29 effect of taxation policies in obtaining an increase in
30 the amount of prospecting and development work done in



1 Saskatchewan.

- 2 7. A prospector wishing to explore the Precambrian
3 Shield may operate in one of three ways: (1) He may
4 prospect for minerals and be backed financially in his
5 endeavor by a company in the mining business, which has
6 revenue from mineral production. (2) He may prospect
7 for minerals and pay his expenses out of his own finan-
8 cial resources. (3) He may prospect for minerals and
9 look to interested individuals, unincorporated
10 associations, or companies not engaged in mineral
11 production for the financial backing he requires. The
12 Saskatchewan Chamber of Mines is not primarily concerned
13 with changes in taxation policies as it affects mining
14 companies, which already have production income. These
15 companies now may deduct from income their expenditures
16 for exploration, prospecting or development. (Section 83
17 A, Sub-section 2 of "The Income Tax Act"). Other special
18 provisions in "The Income Tax Act" are enumerated in
19 Appendix "A" to this brief.
- 20 8. The area where an increase in the number of
21 people participating and in the amount of work done can
22 be expected to come is from groups two and three above,
23 and taxation policies can affect the number of people
24 participating and the amount of exploration work that
25 they will do. At the same time, the chances of new
26 discoveries in the Canadian mining field will be increased
27 if there is an increase in the number of people
28 encouraged to participate and in the amount of money they
29 are encouraged to risk in exploration expenditures.
- 30 9. Canadians with income from sources other than



- 1 than mineral production are not now encouraged to use
2 that income in promoting the search for minerals. An
3 individual is not encouraged to use an extra \$1,000 that
4 he may have over his living requirements for the purpose
5 of backing an exploration project, but that \$1,000 and
6 the \$1,000 of hundreds or thousands of other persons in
7 a similar position funnelled into a mineral exploration
8 program in Canada could be effective. Mineral resources,
9 exploration, and development give scope to individual
10 enterprize. The discovery of minerals calls for the
11 efforts of a great many people of different characteris-
12 tics. A major factor is a willingness on the part of a
13 great many individuals and competing industry units
14 exercising independent judgments to take risks. The
15 chances of success are increased as more people are
16 encouraged to venture their capital backed by initiative
17 and imagination.
- 18 10. The annual amount spent in Saskatchewan in
19 exploration in the Precambrian area is estimated to be
20 less than 1/2 a million dollars. Of this amount the vast
21 majority is being spent by mining companies, who have
22 income from mining production from which their expenditures
23 for exploration can be deducted as an expense. The
24 amount spent in Saskatchewan by individuals and un-
25 incorporated companies and associations in mineral
26 exploration is estimated to be less than 5% of the total
27 expenditure here and, therefore, would not exceed
28 \$20,000 annually.
- 29 11. In Australia petroleum exploration by Australian
30 residents is encouraged by taxation policies. There,



1 by Section 77 A of "The Income Tax & Social Service
2 Contribution Assessment Act" (see Appendix B), deductions
3 are allowed for capital contributed to exploration
4 companies to be used for exploration purposes. A
5 deduction is available for moneys paid to companies on
6 shares that they issue. The deduction may be allowed
7 where a mining or prospecting company declares that it
8 has expended or proposes to expend moneys paid on shares
9 in mining or prospecting for petroleum. The making by
10 the company of such a declaration entitles the share-
11 holders to deductions for the whole of the moneys paid
12 on shares and included in the declaration.

13 12. In the United States of America, by Section
14 615 of "The Internal Revenue Code" of 1954 (see Appendix
15 C): "In the case of expenditure paid or incurred during
16 the taxable year for the purpose of ascertaining the
17 existence, extent or quality of any deposit of ore, or
18 other mineral and paid or incurred before the beginning
19 of the development stage of the mine or deposit, there
20 shall be allowed as a deduction for computing taxable
21 income, so much of such expenditure as does not exceed
22 \$100,000."

23 13. In West Germany after The Second World War,
24 when the replacement of war-destroyed housing was a
25 national problem, the government there allowed, as a
26 deduction from income, moneys spent in the construction
27 of dwellings.

28 14. The number of valuable mineral finds made is
29 a very small proportion compared with the total number
30 of properties and areas that are examined in the course



1 of exploration. It is for this reason that it is most
2 essential that there be a tax incentive to encourage
3 people to do initial exploration knowing that the explor-
4 ation is a gamble. This form of incentive would be
5 more effective in increasing the numbers of people
6 interested and the amount of exploration work done, than
7 the present incentive offered by Section 83(3) commendable
8 as that incentive is. It would be effective as an
9 incentive in increasing the amount of exploration work
10 done. A tax incentive must come at a stage which will
11 encourage people to make the expenditure knowing of the
12 risk involved. An incentive which can only be recognized
13 after the risk is taken and has been successful is less
14 effective in obtaining an increase in exploration work.

15 15. A secondary reason for the recommendation
16 the Saskatchewan Chamber of Mines is making is our
17 interest in encouraging as much as possible the develop-
18 ment of Canadian resources with Canadian capital. The
19 Chamber of Mines does not wish to discourage the in-flow
20 of American capital into the exploration of our mineral
21 resources, but does desire that Canadians and Canadian
22 capital be permitted to compete on a comparable basis.

23 16. The Chamber, therefore, recommends that "The
24 Income Tax Act" be amended to permit any taxpayer to
25 deduct, in computing his income for a taxation year, the
26 prospecting, exploration and development expenses
27 incurred by him in searching for minerals in Canada,
28 such expenditures to be deducted whether made directly
29 or by investment in un-incorporated organizations
30 organized for the purposes of prospecting, exploration



1 and development of mineral resources.

2 17. Because of the very limited expenditure by
3 individuals which has been demonstrated to be taking
4 place at the present time in exploration, the cost of
5 this recommendation to the Federal Treasury would be very
6 limited if the program is not effective in carrying out
7 its objective. If this incentive does not increase the
8 amount of exploration of individuals and un-incorporated
9 associations it will cost an extremely limited amount to
10 the Federal Treasury. It is the opinion of the
11 Saskatchewan Chamber of Mines that the adoption of this
12 recommendation would result in substantially increased
13 exploration. There would then result substantial
14 reductions from income for amounts spent in exploration
15 by taxpayers not now allowed to deduct such expenditures
16 as an expense, but the nation would benefit by the
17 economic growth resulting from the increased exploration
18 expenditure and the increased employment. Both at the
19 exploration and development level as well as in the
20 production phase a relatively large number of persons
21 are employed at both the unskilled and professional
22 levels. It is the contention of the Saskatchewan Chamber
23 of Mines that this economic benefit would far out-weigh
24 the immediate tax loss.

25 18. Section 83 of "The Income Tax Act" previously
26 referred to, does make a special provision for a
27 prospector or prospector's backer. The Saskatchewan
28 Chamber of Mines however, has received complaints from
29 its members that in the administration of this Section
30 of the Act the Department of National Revenue does not



1 appear to interpret the Section according to the apparent
2 intent of the Section. The members feel that the
3 Department narrowly interprets this Section and the onus
4 is placed on the prospector to prove that the amount he
5 has received should not be included in computing his
6 income.

7 Respectively submitted.

8 SASKATCHEWAN CHAMBER OF MINES.
9

10 APPENDIX "A"

11 With few exceptions, referred to below, these
12 provisions are applicable to corporations and comprise
13 the following:

14 1. Special deductions for prospecting, exploration
15 and development expenses (Income Tax Act, Section 83A)
16 Companies whose principal business is mining (including
17 exploring for or processing minerals) may deduct from
18 income of the current year expenditures for exploration,
19 prospecting or development to the extent that these were
20 not deductible in computing income for a previous year.
21 The deduction claimed may be in respect of an expenditure
22 incurred in the current year or in one or more prior
23 years.

24 2. Deduction of pre-production expenses (Income
25 Tax Regulations, Section 1205): An amount up to 25%
26 per annum of all expenditures reasonably attributable
27 to the prospecting and exploration for and the develop-
28 ment of the mine, prior to the mine coming into
29 production in reasonable commercial quantities.

30 3. Capital cost allowances for mining equipment,



1 mine shafts and underground works (Income Tax Act,
2 Section 11 (1) (a), Regulations Part XI, Schedule B,
3 Classes 10 & 12).

4 Mining equipment is generally subject to an allowance of
5 30% of capital cost on the reducing balance method.

6 Mine shafts, including main haulage ways and underground
7 works are subject to a 100% capital cost allowance.

8 4. Capital cost allowances for industrial mineral
9 mines operating bedded deposits except coal (Regulations
10 Section 1100 (1) (g), Schedule E).

11 5. Capital cost allowances for coal mines
12 (Regulations Section 1100 (1) (h) in conjunction with
13 "The Maritime Coal Production Assistance Act:).

14 6. Deduction of mining taxes for income tax
15 purposes (Income Tax Act, Section 11 (1) (p), Regulations,
16 Part VII).

17 Taxes imposed by provinces or municipalities on income
18 from mining operations are, generally speaking, deductible
19 for income tax purposes.

20 7. Percentage depletion (Income Tax Act, Section
21 11 (1) (b), Regulations Part XII). An allowance of
22 33 1/3% of the profits reasonable attributable to the
23 production of minerals (with certain exceptions and
24 modifications) is granted as a depletion allowance.

25 8. Three-year exemption of income from new mines
26 (Income Tax Act, Section 83(5)). Subject to prescribed
27 conditions, a corporation enjoys a tax-free status during
28 a period of 36 months commencing with the day a mine
29 came into production in reasonable commercial quantities.



APPENDIX "B"

THE COMMONWEALTH OF AUSTRALIA

INCOME TAX & SOCIAL SERVICE CONTRIBUTION ASSESSMENT ACT

(1) In this section:

'Australia' - includes the Territory of Papua and
the Territory of New Guinea.

'moneys paid on shares' -- in relation to a company,
means moneys paid to the company in
respect of shares in the company by
the owners of the shares, including
owners who are beneficial owners only,
but does not include:

(a) moneys paid to the company before the
first day of October, A.D. 1958.

(b) moneys paid to the company in respect of
a share the beneficial owner, or any one
of the beneficial owners, of which was
not a resident at the time of payment;
or

(c) moneys paid to the company on application
for shares and applied by the company
towards the paid-up value of a share the
beneficial owner, or any one of the
beneficial owners, of which, on the
allotment of the share, was not a resident.

'petroleum' -- has the same meaning as in Section
123 A of this Act.

'Petroleum exploration company' -- means a mining
or prospecting company carrying on as its
principal business mining or prospecting



1 operations for petroleum in Australia.

2 (2) Where a payment made in respect of a share in
3 a company (whether on application for or allotment of
4 the share, to meet calls or otherwise) is not applied by
5 the company towards the paid-up value of the share, the
6 payment shall, for the purposes of this Section, be
7 deemed not to have been made in respect of the share.

8 (3) Subject to this section, a petroleum
9 exploration company may, for the purposes of the next
10 succeeding sub-section and section 123 A of this Act,
11 before the expiration of 1 month after the end of a
12 year of income of the company in which the company has
13 received moneys paid on shares or within such further
14 time as the Commissioner allows, lodge with the
15 Commissioner a declaration in writing signed by the
16 public officer of the company that the company has
17 expended or proposes to expend, such of those moneys as
18 are specified in the declaration in mining or prospecting
19 for petroleum in Australia or in plant necessary for
20 the treatment of that petroleum.

21 (4) The amount of any moneys paid on shares paid
22 by a person in a year of income of that person to a
23 company and included in moneys specified in a declaration
24 lodged by the company under the last preceding sub-
25 section shall, subject to this Section, be an allowable
26 deduction from the assessable income derived by that
27 person in that year of income.

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APPENDIX "C"

SECTION 615 INTERNAL REVENUE BULLETIN

EXPLORATION EXPENDITURES

(a) IN GENERAL -- In the case of expenditures paid or incurred during the taxable year for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or other mineral, and paid or incurred before the beginning of the development stage of the mine or deposit, there shall be allowed as a deduction in computing taxable income so much of such expenditures as does not exceed \$100,000. This section shall apply only with respect to the amount of such expenditures which, but for this section, would not be allowable as a deduction for the taxable year. This section shall not apply to expenditures for the acquisition or improvement of property of a character which is subject to the allowance for depreciation provided in Section 167, but allowances for depreciation shall be considered, for purposes of this Section, as expenditures paid or incurred. In no case shall this Section apply with respect to amounts paid or incurred for the purpose of ascertaining the existence, location, extent or quality of any deposit of oil or gas.

(b) ELECTION OF TAXPAYER -- If the taxpayer elects, in accordance with regulations prescribed by the Secretary or his delegate, to treat as deferred expenses any portion of the amount deductible for the taxable year under sub-section (a) such portion shall not be deductible in the manner provided in sub-section (a) but shall be deductible on a ratable basis as the units of



1 produced ores or minerals discovered or explored by reason
2 of such expenditures are sold. An election made under
3 this sub-section for any taxable year shall be binding
4 for such year.

5 (c) LIMITATION -- This section shall not apply to
6 any amount paid or incurred in any taxable year if in
7 any four preceding years a deduction or election under
8 this section, or the corresponding provision of prior
9 laws, has been allowed to, or exercised by (1) the
10 taxpayer, or (2) the individual or corporation who has
11 transferred to the taxpayer any mineral property.

12 Paragraph (2) shall apply only if (A) the
13 taxpayer was required to take into account under Section
14 23 (ff) (3) of The Internal Revenue Code of 1939 the
15 deduction allowed to or election exercised by such
16 individual or corporation; (B) the taxpayer would be
17 entitled under Section 381 (c) (10) to deduct expenses
18 deferred under this Section had the distributor or
19 transferor corporation elected to defer such expenses;
20 or (c) the taxpayer acquired any mineral property under
21 circumstances which make Section 334 (B), 362 (A) and
22 (B), 372 (B) (1), & 23, 732, 1051, or 1082 apply to such
23 transfer.

24 (d) ADJUSTED BASIS OF MINE OR DEPOSIT -- The amount
25 of expenditures which are treated under sub-section (b)
26 as deferred expenses shall be taken into account in
27 computing the adjusted basis of the mine or deposit, but
28 such amounts, and the adjustments to basis provided in
29 Section 1016 (a) (10) shall be disregarded in determining
30 the adjusted basis of the property for the purpose of
computing a deduction for depletion under Section 611.



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

SUBMISSION

of

GRAND ORANGE LODGE OF SASKATCHEWAN

445 Castle Rd., Regina, Sask.

(1) The Grand Orange Lodge of Saskatchewan wish to submit the following memoranda for the consideration of the Royal Commission on Taxation sitting in Regina, March 29, 1963.

(2) Section 27 (2) of Federal Income Tax Act reads:

"(2) Charitable Gifts. Where an individual was, during the tax year, a member of a religious order and had as such taken a vow of perpetual poverty, he may in lieu of the deduction permitted by paragraph (a) of sub-section (1) deduct from his income for the year an amount equal to his earned income for the year as defined by Section 32, if of his income, that amount has been paid to the 'Order'".

(3) The Grand Orange Lodge of Saskatchewan asserts that section 27 (2) of the Federal Income Tax Act, as quoted above is "a provision in existing laws which may have given rise, over the years, to anomalies or inequalities, or which may require action to close loopholes which permit the use of devices to avoid fair taxation".

(4) To reduce section 27 (2) of the Federal Income Tax Act to plain words: --

(a) It means that a member of a religious order who has taken a vow of perpetual poverty simply turns his cheque over to a religious order and they in turn pay all expenses. This transaction makes it possible



1 to evade the payment of income tax. Protestant Clergymen
2 and Protestant religious workers, as a general rule,
3 cannot come under the provisions of this act and they are
4 forced to pay income tax the same as any other citizen.
5 We believe this paragraph is a devise inserted in the
6 Income Tax Act to grant exemption to religious orders of
7 the Roman Catholic Church. Members of religious orders
8 are now active in the teaching profession in public and
9 private schools, in the nursing profession, in social
10 work and in many other positions where they are paid
11 directly out of the public purse and are servants of the
12 State.

13 (b) May we take as an example the situation in
14 our public schools in Saskatchewan where we have at the
15 present time 272 Roman Catholic Sisters teaching in our
16 public schools. These people are paid wages set up by
17 the different school districts which would probably
18 average \$4,000.00 per year. The Income Tax for a single
19 person in this bracket would be in excess of \$500.00 but
20 as all these people are exempt from the payment of income
21 tax we see, in this one class alone, the Government is
22 losing millions of dollars. It has been estimated that
23 if the members of religious orders paid income tax the
24 same as other citizens the total tax from this source
25 would amount to over 15,000,000 dollars per year and would
26 substantially reduce the tax paid by private citizens.
27 This is a glaring example of the defiance of the time
28 honoured principle of the separation of Church and State
29 and it is also an example of special privileges being
30 granted to one particular religious body. The



1 Disestablishment Act of 1851 provides "free exercises
2 and enjoyment of religious preference and worship, with-
3 out discrimination or preference. The practice of
4 granting tax exemption to members of religious orders is
5 an infraction of this act.

6 (c) Nuns and Lay Brothers, who are on the
7 payroll of Municipal, Provincial or Federal Governments,
8 are servants of the State and have no right to be exempt
9 the payment of tax, while other servants of the State,
10 performing the same task at the same pay, in just as
11 efficient a manner and just as conscientiously are forced
12 to turn over a large portion of their salary in taxes.
13 Nuns and Lay Brothers SHOULD BE REQUIRED TO PAY THEIR
14 SHARE OF FEDERAL INCOME TAX FOR THE UPKEEP OF OUR COUNTRY
15 AS ARE ALL OTHER SERVANTS OF THE COUNTRY.

16 (5) The Grand Orange Lodge of Saskatchewan requests
17 that section 27 (2), as quoted above, be struck from the
18 Act. If this is not done we suggest that the Federal
19 Income Tax Act be amended so that all clergymen, teachers
20 and nurses be given the same tax exemption as members of
21 religious orders who have taken a vow of perpetual
22 poverty.

23 (6) This Grand Orange Lodge asks that tax discrimin-
24 ation against Protestants and other non-Roman Catholics
25 be eliminated without delay.

26 (7) The Grand Orange Lodge of Saskatchewan operates
27 under a warrant issued by the Grand Orange Lodge of
28 British America, incorporated by Her Majesty, by and with
29 the advice and consent of the Senate and House of Commons
30 of Canada. 53 Victoria, Chapter 105, assented to 24th



1 April, 1890.

2 (8) This submission prepared by Wilfred Humphries,
3 Chairman of the Legislation Committee of the Grand Orange
4 Lodge of Saskatchewan, at the bidding of the Grandmaster
5 and Officers of the Grand Orange Lodge of Saskatchewan.

6 THE GRAND ORANGE LODGE OF SASKATCHEWAN

7 G. B. Smith -- Grandmaster,

8 837 Athabasca St., Moose Jaw, Sask.

9 Roy W. Staples -- Grand Secretary,

10 Box 1074, Moose Jaw, Sask.

11 Wilfred Humphreys -- Chairman of Legislation

12 Committee,

13 4445 Castle Road, Regina, Sask.

14 (Phone LA 2-3345)

15 February 26, 1963

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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

SUBMISSION

OF

REGINA COUNTY LOYAL ORANGE LODGE

1835 Albert St., Regina, Saskatchewan

To the Royal Commission on Taxation
Meeting in Regina, March 29, 1963.

(1) Regina County, Loyal Orange Lodge wish to draw
to the attention of the Royal Commission on Taxation,
what we consider a loophole in our existing tax laws,
which makes it possible for a section of our population
to avoid payment of income tax.

(2) Section 27 (2) of Federal Income Tax Act reads:

"(2) Charitable Gifts. Where an individual
was, during the tax year, a member of a religious order
and had as such taken a vow of perpetual poverty, he may
in lieu of the deduction permitted by paragraph (a) of
sub-section (1) deduct from his income for the year an
amount equal to his earned income for the year as defined
by Section 32, if of his income, that amount has been paid
to the 'Order'".

(3) Here is the picture of those affected by the
above -- mostly Nuns and Lay Brothers of the Roman
Catholic Church.

(4) We have a report which deals only with the Nuns
and Lay Brothers in the schools of Alberta, Saskatchewan
and Ontario.



1	Public Schools:	<u>Alta.</u>	<u>Sask.</u>	<u>Ont.</u>	<u>Tot.</u>
2	Nuns	101	235	81	417
3	Lay Brothers	5	6	10	21
4	Roman Catholic Nuns	229	234	1846	2309
5	Separate-sup- Lay Brothers	12	6	139	157
6	ported by Public Taxation				
7	Grand Total				2904

8 The figure of 2904 covers only teachers and covers only
9 three provinces.

10 (5) Therefore, Nuns and Lay Brothers should be
11 required to pay their share of the Federal income tax
12 for the upkeep of our country as are all other citizens.

13 (6) This brief presented to the Royal Commission on
14 Taxation by Regina County, Loyal Orange Lodge, 1835
15 Albert Street, Regina, Saskatchewan.

16 Robt. W. Sandercock,
17 County Master.
18 J. W. Bell,
19 Secretary,
20 1876 Angus Street,
21 Regina, Saskatchewan.

22 February 26, 1963
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SUBMISSION

of

PROTESTANT LEAGUE SASKATCHEWAN

BOX 335 REGINA, SASKATCHEWAN

PERSONAL INCOME TAX INEQUALITIES

(1) Incredible as it may seem, it is an absolute fact that a great many Canadians receiving taxable incomes are exempt from or evade the payment of all or part of their share of the income tax. In the personal income tax area, the greatest discrepancy is that of excessive deduction claims; that is, the practice of presenting receipts which are in excess of the actual donations made. On several occasions this problem has been brought to the attention of the House of Commons and the Hon. George C. Nowlan is to be commended for the positive action taken in dealing with same. It can be assumed that the Royal Commission, which is conducting a survey of all areas of the federal income tax, will give careful scrutiny to this discreditable practice which has reached alarming proportions.

(2) Another major inequality in the personal income tax area is that of income tax exemptions for members of religious orders. In 1949 Parliament passed legislation which provides complete income tax exemption for members of religious orders who have taken the vow of perpetual poverty. (Section 27 (2) of the Income Tax Act). There are increasingly large numbers of these people receiving taxable income and employed in professions and occupations such as:



- 1 1. Teachers in public schools and in separate
- 2 schools supported by public taxation.
- 3 2. Priests lecturing in provincial and in
- 4 denominational universities.
- 5 3. Nurses and others employed in hospitals
- 6 and similar institutions, civil servants,
- 7 etc.

8 (3) With other persons employed in these professions
9 and occupations the income tax is deducted at the source;
10 i.e., from their cheques. Members of religious orders
11 doing the same work, enjoying the benefits of prevailing
12 salary schedules and paid from the same sources, are
13 entirely exempt from the payment of any income tax.
14 A very large proportion of these people have their
15 salaries paid out of public funds. The annual loss in
16 revenue to the Federal Government resulting from these
17 tax exemptions runs into some twelve millions of dollars
18 or more and is, in effect, a subsidy paid to these
19 religious orders at the expense of Canadian taxpayers.
20 The obvious solution to this unjust situation is the
21 deletion of Section 27 (2) from the Income Tax Act.

22 Only be so doing can this discrimination be eliminated.

23 (4) The fundamental principle of the income tax
24 is that it is a tax on incomes received, and without
25 reference to what people do with their income. There
26 are certain standard exemptions what a person does
27 with his income is not the concern of the government.
28 Moreover, in gratitude for the service rendered by the
29 Government of Canada in preserving our freedoms, including
30 freedom of religion, should not religious groups of all



1 creeds, as good citizens, take their place among those
2 Canadians who willingly accept the responsibility and
3 privilege of sharing in the tax support of the government
4 of their country?

5 (5) A drastic result of income tax preferences
6 enjoyed by the Roman Catholic Church is reflected in the
7 decline of Protestant-supported universities and the
8 rapid expansion of Roman-Catholic-controlled universities.
9 Records show that Protestants established eight univer-
10 sities in Canada before the Roman Catholic Church founded
11 its first university. Since the First World War there
12 has been a sharp reversal of this situation, and now the
13 Roman Catholic Church controls nearly half the universities
14 of Canada, together with some eighty colleges giving
15 courses leading to a B. A. degree. Only one Roman
16 Catholic university has been closed and none has been
17 handed over to provincial control, as have most of the
18 Protestant universities. There now remains only four
19 Protestant-controlled universities together with three
20 colleges giving courses leading to a B. A. degree.

21 (6) While rising costs have forced the handing
22 over of many Protestant universities to provincial
23 control, the great income tax preference enjoyed by the
24 Roman Catholic Church has had much to do with the rapid
25 expansion of its universities. Speaking recently at the
26 formal opening of a Roman Catholic college in the Lower
27 Mainland of British Columbia, the main speaker, a
28 prominent prelate, made the significant observation to
29 the effect that the growth of Roman Catholic education
30 in Canada during the past twenty years has been phenomenal.



1 (7) These income tax preferences constitute a
2 disturbing departure from the principle of separation of
3 church and state, a policy to which the Government of
4 Canada was committed by the Disestablishment Act of 1851.
5 This act completed the separation of church and state in
6 Canada and granted complete equality of religion to all
7 Canadians, without "discrimination or preference".
8 Now, a hundred years later, widespread inequalities again
9 have penetrated the religious life of our nation, not
10 the least of which is that of income tax preferences.

11 (8) It is respectfully requested, therefore, that
12 the House of Commons take immediate action to delete the
13 said discriminatory Section 27 (2) from the Federal
14 Income Tax Act.

15 V. E. Nordlund, B.A., B.Ed.,
16 1719 London Street,
17 New Westminster, B.C.

18 This submission submitted by the Protestant
19 League Saskatchewan to the Royal Commission on Taxation
20 sitting in Regina on March 28, 1963.

21 Box 335, Regina, Sask.
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TORONTO, ONTARIO

B R I E F

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p r e s e n t e d b y
R E T A I L M E R C H A N T S ' A S S O C I A T I O N
(S A S K A T C H E W A N) I N C O R P O R A T E D

201 TORONTO-DOMINION BANK BUILDING
SASKATOON, SASKATCHEWAN

This Brief has been written and prepared by R. E.
Walker on behalf of the officers and members of
the Association.



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

ROYAL COMMISSION ON TAXATION
(UNDER ORDER IN COUNCIL P.C. 1962-1334)

SUBMISSION BY

RETAIL MERCHANTS' ASSOCIATION (SASK.) INCORPORATED

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RETAIL MERCHANTS' ASSOCIATION (SASK.) INCORPORATED

ROYAL COMMISSION ON TAXATION

(UNDER ORDER IN COUNCIL P.C. 1962-1334)

PRE SUMMARY

This submission is presented on behalf of the members of the Retail Merchants' Association (Saskatchewan) Inc. who are contributing a large percentage of earnings to Federal revenues.

The submission recommends cuts in income tax from present taxing schedules at $7\frac{1}{2}\%$ lower the first year, 15% lower the second year and $22\frac{1}{2}\%$ lower the third year.

It recommends that corporation taxes be lowered 5% each year from the present taxing schedules for a three year period.

The submission recommends that all couples marrying and living in Canada be exempt from income tax payments for one full year in which they marry.

The submission recommends that a larger allowance into Registered tax saving plans, that will allow for larger pension plans and ultimately allow for earlier retirement from the work force.

The submission recommends that business be allowed to save by tax exemption and set up investment reserves for economic stabilization.

The submission suggests co-operation between the National Government and Provincial Governments when direct consumer sales taxes are implemented.



B R I E F
TO THE CHAIRMAN AND MEMBERS
ROYAL COMMISSION ON TAXATION

The Retail Merchants' Association (Saskatchewan) Incorporated has been asked by its members to have a brief prepared and presented to your Commission.

The Retail Merchants' Association (Saskatchewan) Incorporated is a provincial incorporated Association.

The aims and objects of the Association are set out here under, and are incorporated into the Membership Agreement which each member signs.

The Retail Merchants' Association (Saskatchewan) Incorporated uses a Membership Agreement between its members and the Association, and the purpose is for continuous membership, unless cancelled by either contracting party with thirty (30) days notice.

Some of the specific objects of the Association are:

1. To safeguard the interests of all retailers throughout Saskatchewan.
2. The collection and publication of information and statistics relating to/or concerning such interests.
3. The arbitration and settlement of trade disputes arising between any of its members.
4. To endeavour to enlist the co-operation of all manufacturers, producers and wholesale jobbers in securing just and equitable prices on all classes of staple merchandise.
5. To promote legislation that will prevent misrepresentation in advertising which is calculated to do injury



- 1 to legitimate merchandising and to destroy the value
- 2 of labour.
- 3 6. To promote legislation that will make the officers of
- 4 mercantile corporations responsible under the law the
- 5 same as is now meted out to individuals when they
- 6 commit fraud and practise deception.
- 7 7. To endeavour to have the retail trade of cities,
- 8 towns and villages confined as far as possible to
- 9 legitimate retailers.
- 10 8. To promote legislation in the direction of securing
- 11 improvements in municipal laws, such as peddling and
- 12 other licencing, simplifying the collection of small
- 13 debts, securing amendments to the Transient Traders
- 14 Act, abolishing as far as possible all gift schemes,
- 15 trading stamps, coupons or similar devices, and
- 16 securing such amendments or additions to Municipal,
- 17 Provincial and Dominion Legislation as may be deemed
- 18 desirable in the best interests of the retail trade
- 19 from time to time.
- 20 9. To promote legislation in the direction of securing
- 21 efficient insolvency legislation.
- 22 10. To have all legislation that affects retail interests
- 23 which is introduced into Provincial Legislatures or
- 24 the Dominion Parliament made known to our members
- 25 before it becomes law.
- 26 11. To secure closer friendly relationship and good fel-
- 27 lowship among retailers and with all organizations,
- 28 associations and co-operatives, having for their
- 29 objects the best interests of trade and commerce.
- 30



1 12. The procuring and furnishing to its members infor-
2 mation regarding the solvency of persons who deal
3 with any of its members.

4 13. The promoting of a cash merchandising plan to its
5 members for all merchandise sold that cannot be
6 secured, and the use of Conditional Sales Contracts
7 and Instalment Sales Agreements for all other
8 merchandise.

9 14. To promote friendly relations between consumers and
10 retailers in Saskatchewan by fair dealing, i.e. Ex-
11 change of merchandise not satisfactory; return of
12 deposits to customers by retailers when goods not
13 satisfactory; and the promotion of good public
14 relations so that customers will prefer to deal
15 with a member of the Association.

16 As the objects of the Association are in the main
17 directed at improving the standard of living for all
18 people, it is with this thought in mind that the Associ-
19 ation proposes to your Commission the following points for
20 your consideration so that the above goals may be reached.

21 Canadian people want a taxing policy that will pro-
22 mote a higher standard of living, that will encourage
23 savings, and a taxing policy adopted that will allow the
24 Canadian product to be competitive on export markets, and
25 further a policy that will allow business enterprise a
26 freedom that will permit profit, so that employable
27 Canadians and young men and women entering the labour
28 market may have jobs.

29 Therefore, out brief to you suggests a policy so
30



- 1 framed that it will allow for higher production at lower
2 costs for the Canadian product by:
- 3 (a) Economies by all governments.
- 4 (b) Governments to remove themselves from all competitive
5 business and leave the operation of business to
6 business people.
- 7 (c) Encourage labour to higher production by lowering
8 costs by (i) tax incentives to taxpayers and corpo-
9 rations (ii) by exempted income tax deductions
10 toward pension plans (iii) allow corporations,
11 business partners and individuals to set up Invest-
12 ment reserves for economic stabilization and deduct
13 from taxable earnings.
- 14 (d) A taxing schedule that is based on same basis for
15 all business and Crown Corporations.

16 RETAIL MERCHANTS' ASSOCIATION (SASKATCHEWAN) INCORPORATED

17 BRIEF PROPOSALS

- 18 1. Lower personal income tax rates on taxable income in
19 the employees group progressively over a three (3)
20 year period from the present taxing schedules $7\frac{1}{2}\%$
21 first year, 15% second year and $22\frac{1}{2}\%$ third year.
- 22 2. Corporation income taxes to be lowered at the rate of
23 5% per year for the three (3) year period from the
24 present taxing schedules.
- 25 3. All corporations operating in Canada including all
26 Crown Corporations to pay income tax on the same
27 taxing schedule basis.
- 28 4. Exempt for one (1) full year income tax payments of
29 all couples marrying and living in Canada in the
30 taxable year in which they marry.



- 1 5. Allow for employees and others who are using section
2 79B of Income Tax Act and providing themselves with
3 a pension plan for their retirement, tax schedules
4 to be raised to allow for larger tax exemption
5 saving into retirement.
- 6 6. Excise tax to be reduced on cigarettes, cigars and
7 tobacco by 10% immediately.
- 8 7. Allow individual business, partnerships and corpora-
9 tions to set up Investment Reserves for Economic
10 stabilization.
- 11 8. We recommend to your Commission that a recommendation
12 go to all provinces in Canada (a) that the Pro-
13 vincial Governments co-operate when imposing Pro-
14 vincial Sales Tax or (b) that a tax rental arrange-
15 ment be made between the Provincial Government and
16 the Federal Government to collect the required Sales
17 Tax through existing tax acts.
- 18 (1) In dealing effectively with taxation of the Canadian
19 people we must have a policy of taxing that will keep our
20 national product rising at a rate sufficient to keep our
21 employable men and women all working, as well as to
22 provide the necessary employment for the young men and
23 women who are coming of employable age.
- 24 (2) We are an exporting country and therefore policies
25 must be geared to make Canada competitive with competing
26 countries.
- 27 (3) In the over all matter of taxing the policy should
28 be that Canadian taxpayers in addition to paying taxes
29 should have a taxing schedule that will allow them to have



1 a saving for future years.

2 In the taxation year ending April 1, 1961 through
3 March 31st, 1962, individual Canadians paid income taxes
4 directly and deducted at source \$2,088,267,480.84.

5 By following our reduction tables, individual tax-
6 payers would pay in the first year \$1,931,647,419.00 and
7 would have available for savings and extra purchases
8 \$156,620,000.00 the first year, and by using the same
9 level of income taxes paid in the taxation year April 1,
10 1961 through March 31st, 1962 the tax saving on the second
11 year would amount to \$313,240,122.00 and the third tax
12 savings using the same level of income taxes paid in the
13 taxation year April 1, 1961 through March 31st, 1962
14 would amount to \$469,882,183.00.

15 Corporation income tax would be taxable at a lesser
16 amount by 5% using the March 1961-62 taxation year and
17 would be a less corporation taxes by \$65,175,131.00.

18 In the first year if the reduced rates were appli-
19 cable the tax savings by individuals and corporations
20 would be \$221,795,131.00. If the same taxing formula
21 were used in succeeding years the tax savings would be
22 higher as the taxable incomes would rise proportionately
23 each year, as tax saving money would immediately be
24 available in extra consumer goods, purchases or into
25 savings accounts which in turn would increase the needs
26 for increased consumer goods.

27

28

29

30

TABLE #1

CANADIAN TAXPAYERS BY OCCUPATION - 1960

Page 6

OCCUPATION	NUMBER	AVERAGE INCOME \$	TOTAL INCOME IN MILLIONS	% OF GRAND TOTAL	AVERAGE TAX \$	TOTAL TAX IN MILLIONS	% OF GRAND TOTAL
Doctors & Surgeons	14,013	16,323	228.7	1.23	3,713	52.0	2.92
Engineers & Architects	2,019	15,670	31.6	.17	3,845	7.8	.44
Lawyers & Notaries	7,195	14,597	105.0	.57	3,500	25.2	1.41
Dentists	4,381	12,238	53.6	.29	2,381	10.4	.58
Accountants	4,119	11,446	47.1	.25	2,282	9.4	.53
Investors	112,334	8,255	702.7	3.78	982	110.3	6.19
Entertainers & Artists	3,089	5,943	18.4	.10	782	2.4	.14
Other Professionals	9,612	5,683	54.6	.29	767	7.4	.41
Salesmen	50,635	5,561	281.6	1.52	600	30.4	1.70
Business Proprietors	159,014	5,286	1,052.1	5.66	603	120.0	6.73
Unclassified	10,378	4,568	47.4	.26	531	5.5	.31
Estates	3,179	4,447	14.1	.08	440	1.4	.08
Farmers	66,916	4,124	276.0	1.49	326	21.8	1.22
Employees	3,868,185	4,021	15,555.1	83.73	355	1,373.1	76.98
Fishermen	3,200	3,775	12.1	.07	296	.9	.05
Pensioners	31,497	3,114	98.1	.53	176	5.5	.31
TOTAL	4,389,766	4,232	18,578.2	100.00	406	1,783.6	100.00

PROPRIETORS:

Finance	2,415	11,758	28.4	.15	2,719	6.6	.37
Real Estate	2,316	7,755	18.0	.10	1,237	2.9	.16
Insurance Agents	3,430	7,708	26.4	.14	1,112	3.8	.21
Wholesale Trade	7,196	7,224	52.0	.28	1,073	7.7	.43
Manufacturing	10,621	6,110	64.9	.35	784	8.3	.47
Recreation Services	2,059	5,621	11.6	.06	681	1.4	.08
Other Business	2,633	5,427	14.3	.08	718	1.9	.11
Retail Trade	77,773	5,398	419.8	2.26	584	45.4	2.55
Business Services	3,578	5,328	19.1	.10	659	2.4	.13
Construction	28,978	5,051	146.4	.79	535	15.5	.87
Forestry	2,434	4,938	12.0	.06	516	1.3	.07
Public Utilities	15,733	4,319	68.0	.37	390	6.1	.34
Other Services	30,848	4,298	171.3	.92	418	16.7	.93
TOTAL	195,014	5,286	1,052.1	5.66	603	120.0	6.73

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<u>OCCUPATION</u>	<u>NUMBER</u>	<u>AVERAGE INCOME</u>	<u>TOTAL INCOME IN MILLIONS</u>	<u>% OF GRAND TOTAL</u>	<u>AVERAGE TAX</u>	<u>TOTAL TAX IN MILLIONS</u>	<u>% OF GRAND TOTAL</u>
<u>EMPLOYEES:</u>							
Teachers & Professors	130,932	4,450	582.7	3.14	448	58.7	3.29
Municipal Government	142,780	4,192	598.6	3.22	318	45.4	2.54
Federal Government	186,800	4,141	773.6	4.16	335	62.7	3.51
Business Enterprises	3,036,422	4,073	12,366.4	66.56	366	1,110.6	62.26
Provincial Government	154,943	3,948	611.7	3.29	317	49.2	2.76
Unclassified	47,961	2,954	141.7	.76	219	10.5	.59
Institutions	168,347	2,854	480.5	2.59	215	36.2	2.03
TOTAL	3,868,185	4,021	15,555.1	83.73	355	1,373.1	76.98



TABLE #2

TOTAL TAX COLLECTIONS BY CANADA

TOTAL TAX COLLECTIONS

1957	\$3,017,243,691
1958	3,066,201,953
1959	2,709,475,910
1960	3,148,193,470
1961	3,493,741,147
1962 (1).....	3,588,655,206

INDIVIDUAL GENERAL INCOME TAX COLLECTIONS (2)

1957	\$1,525,450,445
1958	1,634,789,390
1959	1,499,849,314
1960	1,752,193,703
1961	1,940,559,572
1962 (1).....	2,088,267,481

CORPORATION GENERAL INCOME TAX COLLECTIONS (2)

1957	\$1,335,636,915
1958	1,295,470,725
1959	1,075,878,164
1960	1,234,215,702
1961	1,380,128,380
1962	1,303,502,634

NON-RESIDENT TAX COLLECTIONS

1957	\$ 76,447,135
1958	64,334,080
1959	61,213,292
1960	73,353,361
1961	88,173,822
1962	112,305,709

SUCCESSION DUTY AND ESTATE TAX COLLECTIONS

1957	\$ 79,709,196
1958	71,607,758
1959	72,535,140
1960	86,430,705
1961	84,879,372
1962	84,579,382

- (1) Payments and refunds relating to 1961 T1 Short returns filed by taxpayers in the Western Provinces during the period January 3-March 31, 1962 are included under the Data Centre and thus shown Ontario.
- (2) Includes collections of Old Age Security Tax.



TABLE #3

CANADIAN TAXPAYERS BY INCOME - 1960

(1)

INCOME	CLASS	NUMBER	TOTAL INCOME (IN MILLIONS)	TOTAL TAX (IN MILLIONS)	PER CENT OF GRAND TOTAL	
Under	-	1,000	24.173	12.5	1.3	.07
1,000 to	1,099	2,761	2.9	.2	.5	.01
1,100 to	1,199	61,078	70.2	.5	.5	.03
1,200 to	1,299	68,704	85.5	1.5	.5	.08
1,300 to	1,399	69,232	93.2	2.4	.5	.13
1,400 to	1,499	67,717	97.8	3.1	.5	.17
1,500 to	1,599	66,514	102.7	3.9	.5	.22
1,600 to	1,699	73,104	120.3	4.9	.5	.27
1,700 to	1,799	71,456	124.7	5.5	.5	.31
1,800 to	1,899	76,097	140.3	6.8	.5	.38
1,900 to	1,999	73,084	142.1	7.2	.5	.40
2,000 to	2,000	73,543	150.3	8.4	.5	.47
2,100 to	2,199	82,254	176.4	9.2	.5	.52
2,200 to	2,299	84,277	189.2	10.4	.5	.58
2,300 to	2,399	86,395	202.7	11.7	.5	.66
2,400 to	2,499	89,059	217.7	12.7	.5	.71
2,500 to	2,599	85,031	216.4	13.1	.5	.73
2,600 to	2,699	95,290	251.9	14.7	.5	.82
2,700 to	2,799	91,895	252.3	15.0	.5	.84
2,800 to	2,899	93,508	266.1	15.8	.5	.89
2,900 to	2,999	94,983	279.7	17.1	.5	.96
3,000 to	3,099	96,407	293.4	17.7	.5	.99
3,100 to	3,199	103,766	326.4	19.7	.5	1.10
3,200 to	3,299	102,046	331.1	20.4	.5	1.14
3,300 to	3,399	103,196	345.2	21.7	.5	1.22
3,400 to	3,499	103,220	355.6	22.8	.5	1.28
3,500 to	3,599	99,058	351.1	22.4	.5	1.26
3,600 to	3,699	100,369	365.8	23.8	.5	1.33
3,700 to	3,799	96,195	360.1	23.8	.5	1.34
3,800 to	3,899	93,589	359.8	24.0	.5	1.35
3,900 to	3,999	100,895	397.9	27.4	.5	1.54
4,000 to	4,099	93,821	379.4	26.1	.5	1.46
4,100 to	4,199	90,786	376.3	25.8	.5	1.44
4,200 to	4,299	89,270	378.9	26.8	.5	1.50
4,300 to	4,399	88,431	384.2	27.4	.5	1.54
4,400 to	4,499	83,186	369.6	27.1	.5	1.52
4,500 to	4,599	79,560	361.5	26.9	.5	1.51
4,600 to	4,699	76,150	353.7	27.1	.5	1.52
4,700 to	4,799	69,908	331.6	25.6	.5	1.43
4,800 to	4,899	70,076	339.4	26.6	.5	1.49
4,900 to	4,999	64,076	316.8	25.3	.5	1.42
5,000 to	5,499	262,504	1,373.0	116.2	.5	6.51
5,500 to	5,999	189,018	1,082.9	98.1	.5	5.50
6,000 to	6,999	225,279	1,450.7	144.1	.5	8.08
7,000 to	7,999	122,162	909.1	99.7	.5	5.59
8,000 to	8,999	69,454	587.1	69.9	.5	3.92
9,000 to	9,999	45,468	429.1	55.1	.5	3.09
10,000 to	14,999	85,765	1,022.1	155.1	.5	8.70
15,000 to	19,999	26,879	459.7	91.0	.5	5.10
20,000 to	24,999	11,388	252.6	59.9	.5	3.36
25,000 to	49,999	14,395	475.0	138.4	.5	7.76
50,000 to	99,999	2,745	179.1	65.3	.5	3.66
100,000 to	199,999	467	60.2	25.3	.5	1.42
200,000 and Over		82	24.8	12.2	.5	.68
TOTAL		4,389,766	18,578.2	1,783.6		100.00



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11

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TABLE #4

TAXES COLLECTED BY THE TAXATION DIVISION OF THE DEPARTMENT OF NATIONAL REVENUE

YEARS ENDED MARCH 31, 1949 - 1962						(1)
YEAR	INDIVIDUAL	INCOME TAX CORPORATION	TOTAL	SUCCESSION DUTIES	TOTAL COLLECTIONS	
	\$	\$	\$	\$	\$	
1949	806,009,280	491,990,124	1,297,999,404	25,549,777	1,368,341,099	
1950	669,457,059	603,193,132	1,272,650,191	29,919,780	1,300,781,584	
1951	713,938,999	799,196,511	1,513,135,510	33,599,089	1,556,875,509	
1952	1,030,793,334	1,132,680,074	2,163,473,408	38,207,985	2,204,046,302	
1953	1,278,949,939	1,276,940,150	2,555,890,089	38,070,529	2,593,960,618	
1954	1,332,116,907	1,246,786,598	2,578,903,505	39,137,554	2,618,041,099	
1955	1,345,611,443	1,066,585,823	2,413,197,266	44,768,029	2,456,965,295	
1956	1,354,275,414	1,081,055,818	2,435,331,232	66,607,026	2,501,938,258	
1957	1,601,897,580	1,335,636,914	2,937,534,494	79,709,197	3,017,243,691	
1958	1,699,123,470	1,294,470,725	2,994,594,195	71,607,758	3,066,201,953	
1959	1,561,062,606	1,075,878,164	2,636,940,770	72,535,140	2,709,475,910	
1960	1,825,547,063	1,234,215,702	3,059,762,765	88,430,705	3,148,193,470	
1961	2,028,733,394	1,380,128,380	3,408,861,774	84,879,372	3,493,741,146	
1962	2,200,573,190	1,303,502,634	3,504,075,824	84,579,382	3,588,655,206	

(1) Taxation Statistics Canada Year Book 1962 - page 1039



1 TABLE #5

2 CO-OPERATIVE RETAIL OPERATIONS

3 For the taxation year 1960 the Department of National
4 Revenue reports on page 115 in table 3 a (1) the taxation
5 and revenue of the Co-Operatives in Canada, profit companies
6 for the year as follows:

7 Number of Co-Operative Companies....1,878

8 Current Year Profit.....9.1 millions of dollars

9 Total Tax Declared.....2.1 millions of dollars

10 TABLE #6

11 GENERAL STATEMENT - 1960 TAXATION YEAR

12 TAXABLE RETURNS - CANADA

13 Number of Returns..... 4,389,766

Total Income..... \$18,578,218,000.00

14 Total Exemptions..... 8,851,287,000.00

Taxable Income..... 9,726,931,000.00

15 Total Taxpayable..... 1,783,598,000.00

16 NON TAXABLE RETURNS - CANADA

17 Number of Returns..... 1,460,845

Total Income..... \$ 1,906,103,000.00

18 Total Exemptions..... 2,815,354,000.00

19 ALL RETURNS - CANADA

20 Number of Returns..... 5,850,611

Total Income \$20,484,321,000.00

21 Total Exemptions..... 11,666,641,000.00

22 (2) In the 1962 Taxation statistics book released by the
23 Minister of National Revenue for the year ending March 31,
24 1962 we find that individuals pay the large share of the
25 income tax that is collected by the Government of Canada,
26 amounting to in the taxing year 1962 \$2,088,267,430.84
27 and the corporations in Canada paid \$1,303,502,633.88.

28 We find there were 4,389,766 men and women in the
29 occupations and 3,868,185 of them classed as employees



1 and of this number paid income taxes in 1960 amounting to
2 \$1,373.1 millions or 76.98 of the total income tax paid
3 by the occupational group.

4 We would direct your attention to Table #1 attached
5 to this brief showing the percentages of the total tax as

6 (1) 1962 Taxation Statistics - Department of National
7 Revenue

8 (2) 1962 Taxation Statistics - Page 115 - Table #3.
9 paid by the different groups.

10 In the proprietors group we note from the same re-
11 lease there are 199,014 filing tax paying income tax
12 returns amounting to \$1,052,100,000 and this group con-
13 tributes 6973% to the Income Tax Department.

14 In the active taxable companies the Minister of
15 Revenue reports 64,100 companies reporting \$1,269,700,000.00
16 income tax paid.

17 We are suggesting in view of the heavy load of taxes
18 that individual income tax be reduced over the next three
19 years, from the present rate schedules, 7½% first year,
20 15% second year and 22½% the third year.

21 We have indicated the tax saving to the tax paying
22 individuals and we are suggesting this saving to the tax-
23 payers and lower revenue to the government will be made
24 up and will reflect back into government incomes through
25 increased consumer sales and excise tax. This is neces-
26 sary to accommodate the suggestion that tobacco taxes be
27 reduced since tobacco taxes represent an ever increasing
28 share of the non sales tax excise taxes. (See Table #8)

29 However, the tax saving will have the effect of
30 increasing sales, which will reflect into higher employ-



1 ment and increased production.

2 The decreased taxes will assist Canadian exports, in
3 that the product will be lowered in cost and thus will
4 assist to keep our product competitive on the export
5 markets.

6 In Table #8 sales taxes and special commodity taxes
7 (excluding duty and excise tax) are shown as collected for
8 the years 1957-1961 and show a steady rise, as our economy
9 and retail sales increase.

10 For the year ending 1961 the sales tax on domestic
11 products amounted to \$856 million and special commodity
12 taxes on domestic products amounted to \$619 million. The
13 special tobacco commodity taxes amounted to well over 50%
14 of special taxes bringing in \$324 million to the federal
15 treasury. (See Table #8)

16 We are suggesting the decreased amount would be off-
17 set by increases in sales tax.

18 CORPORATIONS

19 We are suggesting that Corporation income taxes be
20 reduced 5% per year for the next three (3) years from the
21 present rate schedules.

22 We would refer you to the Corporation Income Tax in
23 Sweden. (1.1)

24 The national income tax is levied on the net taxable
25 income of corporations at the flat rate of 40 per cent,
26 reduced recently from 50 per cent. There is no differ-
27 entiation between distributed and undistributed profits;
28 a Swedish operating corporation may, as a result retain
29 such reserves in its business as it deems appropriate to
30



1 the needs of the enterprise. Without incurring additional
2 tax burdens, it is free to invest accumulated earnings
3 in new or expanded plant and equipment, or for other
4 corporate purposes in its discretion.

5 We suggest that all business in Canada be assessed
6 on the same basis and pay income tax at the same income
7 tax rate and this taxing apply to all Crown Corporations.

8 We would point out to your Committee, that the taking
9 over of large provincial power corporations by Provincial
10 governments results in loss of income tax to the National
11 government.

12 The financial statement issued by the B.C. Electric
13 Company Limited operating in B.C. and expropriated by the
14 B.C. government in 1961, showed in the 1960 operation that
15 income taxes paid by the company to the Federal Government
16 amounted to \$12,370,469.00.

17 The same situation exists with the power companies
18 operating in the Province of Quebec now being negotiated
19 for take over by the Quebec Government.

20 This loss in income taxes to the National Government
21 will have to be made up by Canadian taxpayers.

22 It is our recommendation that your Committee recom-
23 mend the taxing of Crown Corporations to the end of
24 reducing the lax load on the individual taxpayer.

25 By taxing all business on the same basis, every
26 business will be on the same competitive basis and this
27 will assist not only the business being taxed, but will

28

29 (1.1) The Corporate Income Tax in Sweden by Martin Norr
Claes Sandels.

30



1 be of benefit to the employees and the government.

2 It will put an end to discrimination as charged by
3 independents against certain business not now paying on
4 same taxing basis.

5 The population of Canada as reported by the D.B.S.
6 for the census of 1961 show there were 18,238,247 as at
7 end of 1961. (1) In 1960 there were 130,338 marriages
8 in Canada (2) and natural increase births 338,858. (3).

9 TABLE #7

10 MARRIAGES IN CANADA - 1941 - 1960 - concluded. (4)

	<u>TOTAL MARRIAGES</u>
12 1941.....	121,842
13 1951.....	128,230
14 1956.....	132,713
15 1957.....	133,186
16 1958.....	131,525
17 1959.....	132,474
18 1960.....	130,338

16 As indicated the number of couples marrying in
17 Canada in 1960 numbered 130,388 - Table #7.

18 We have recommended that couples marrying should be
19 given Income Tax exemption for the full year in which
20 they marry.

21 A large number of couples marrying at this period are
22 University students and as the costs are high in attending
23 University, and as we want to encourage these young people,
24 we recommend income tax exemption for the full year in
25 which they are married.

- 26
- 27 (1) Canada Year Book 1962 - page 1196
28 (2) Canada Year Book 1962 - page 209
29 (3) Canada Year Book 1962 - page 183
30 (4) Canada Year Book 1962 - page 209



1 With other couples marrying, a large number of them
2 have their first jobs, and as setting up households is
3 expensive and as money is usually short at this time, we
4 strongly recommend that all Canadian couples marrying be
5 exempt for one full year from income tax payments in the
6 year of marriage.

7 The Canadian Senate appointed in 1960 a special
8 committee which examined the background of unemployment
9 and its underlying causes. In the study, the reports
10 indicate three major trends, in the expansion in the number
11 of Canadian workers. It was pointed out that almost half
12 of the total increase in Canadian manpower supply may be
13 attributed to net immigration. Another factor in the
14 growth as well as the changing composition of the labour
15 force, was the unprecedented increase in the number of
16 working women in the age group over 35.

17 Between 1956 and 1960 the female labour force in-
18 creased 23% to 25% of the total with a numerical increase
19 of 303,000, almost as large as the 318,000 increase in
20 the number of men.

21 The third main influence on the size of the labour
22 force is the large population increase resulting from the
23 rising birth rate following the war years. This rising
24 rate had its effect first on the school system and now is
25 being felt in the labour market.

26 An addition to the three main causes of increase
27 would be the decline in agricultural employees, this
28 stream being absorbed into other employable channels.

29 The committee report forecasts that the Canadian
30



1 labour force will increase in the order of 11% to 13% by
2 1965-66 an addition of 700,000 to 800,000 employees.

3 "The report points out that a reduction of the un-
4 employment rate, running at present at around $3\frac{1}{2}\%$ of the
5 labour force, would require that the economy must provide
6 work for another 200,000 people from the ranks of the
7 unemployed, as well as 70,000 at present engaged in
8 Agriculture. The non-agricultural sector must be able to
9 absorb around a million more men and women over the next
10 five year period."

11 The most important of the Committee's recommendations
12 for meeting the complex problems of unemployment and
13 economic growth, are summarized as follows:

14 "Monetary policy should be accompanied by a
15 complementary fiscal policy designed to promote expansion
16 in critical sectors of the economy and to remove dis-
17 couraging uncertainties.

18 A comprehensive study and re-examination of machinery
19 for monetary control and its place in formulation and
20 execution of economic policies is recommended.

21 More specifically, the Senate Committee recommends
22 that taxation be modified to encourage increased expendi-
23 tures on research, innovations and development and a
24 system of depreciation allowances instituted that would
25 give a strong incentive for modernizing productive
26 processes. In addition, manufacturing industries should
27 be encouraged through tax relief to develop substantial
28 increases in their exports."

29 "In order to keep wage increase in line with increases
30



1 in productivity it is suggested that management and labour
2 co-operate in providing guidance for price and wage poli-
3 cies in joint periodic assessments of the condition of
4 the economy."

5 Experience since the Age of Solon, at least, and
6 probably, if we had the statistics, for many centuries
7 before that, indicates what a knowledge of human nature
8 would lead us to expect, namely, that there is a steady
9 tendency for the wage unit to rise over long periods of
10 time and that it can be reduced only amidst the decay and
11 dissolution of economic society. Thus apart altogether
12 from progress and increasing population, a gradually in-
13 creased stock of money has proved imperative.

14 CANADIAN LABOUR FORCE (1)

15 (Annual Average and Percentage of Labour Force)

16		<u>1950</u>	<u>%</u>	<u>1956</u>	<u>%</u>	<u>1958</u>	<u>%</u>	<u>1960</u>	<u>%</u>
17		000's		000's		000's		000's	
18	Employed								
	Agricultural	1018	20	776	13	712	12	675	11
19	Non-agricultural	3958	76	4809	84	4983	81	5280	82
	Total employed	4976	96	5585	97	5695	93	5955	93
20	Unemployed	186	4	197	3	432	7	448	7
21	Total Labour Force	5162	100	5782	100	6127	100	6503	100
	of which:								
22	Male	4050	78	4436	77	4634	76	4754	74
	Female	1112	22	1346	23	1493	24	1649	26

23 We are recommending that employees and others paying
24 income tax be allowed to provide themselves through section
25 79B of the Income Tax Act to provide a larger pension
26 saving for future use by allowing the tax schedule to be
27 raised to allow for a larger tax exemption saving into the
28

29 Keynes in his book - General Theory of Employment - Book
VI page 340

30 (1) Bank of Montreal - Business Review - August 1961



1 registered pension saving plan.

2 Taxpayers should be encouraged to set aside part of
3 their earnings by deduction from taxable earning. We
4 recommend the rate be raised to 20 percent from 10 percent.

5 (1) In the taxation year for 1960 the Minister of
6 Revenue reports pension contributions reported by corp-
7 orations amounted to 172.4 millions, and in the private
8 sector pension contribution amounted to \$325,443,000.00,
9 and both groups pension plans amounting to \$498,843,000,
10 funds registered with the Income Tax Department for pension
11 plans in 1960.

12 We recommend that pension plans be portable so they
13 will follow an employee if job is changed.

14 INVESTMENT RESERVES FOR ECONOMIC STABILIZATION - (2)

15 In Sweden, the government since 1938, has allowed
16 corporations to set up tax free investment reserves for
17 economic stabilization.

18 This has attracted special attention from many
19 countries abroad.

20 First adopted on a provincial basis in 1938, the rules
21 governing these reserves have been steadily enlarged and
22 expanded in the light of practical experience. The in-
23 vestment reserve provisions were designed to stimulate the
24 use of private capital in the fight against recession,
25 unemployment and economic stability.

26 During the world recession of 1957-58, Sweden had an
27 opportunity to put these reserves to the test. They

28

- 29 (1) 1962 Taxation Statistics - page 159
30 (2) Section 4.7 - The Corporate Income Tax in Sweden.



1 proved of significant benefit in stimulating private in-
2 vestment and maintaining Swedish employment in the face of
3 declines elsewhere.

4 Corporations reporting income from business are
5 permitted to set aside, in their own discretion, up to 40
6 per cent of their pre tax net business income as an
7 investment reserve for economic stabilization.

8 Amounts allocated to an investment reserve are
9 deductible from income for purposes of both the national
10 and local taxes. In all instances 46% of the amount so
11 allocated to an investment reserve must be deposited to
12 the corporations account in the Bank of Sweden. Thus 54
13 per cent remains in the hands of the corporation as part
14 of its working capital, like a reserve for depreciation or
15 an inventory reserve.

16 There is no ceiling on the total amount which a
17 reserve may reach or on the number of years in which an
18 allocation to the reserve may be made. In all cases,
19 whether an allocation to a reserve shall be made, and the
20 amount of such an allocation, is in the discretion of the
21 corporation; no government permission is required.

22 Control over the use of the reserve in such as to
23 obtain the maximum tax benefit is in the hands of the
24 government, however.

25 For the most part, this control is vested in the
26 Labor Market Board, the government agency charged with
27 primary responsibility for employment matters.

28 The Labor Market Board may authorize a corporation to
29 use all or part of its investment reserve for one of the
30



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28 The Labor Market Board may authorize a corporation to
29 use all or part of its investment reserve for one of the
30



1 purposes allowed by the governing law whenever, in the
2 Board's opinion, the country's economic and employment
3 situation so warrants.

4 Under the law, the Board may even direct a corporation
5 to use all or part of its investment reserve for one of
6 those purposes, although in fact no such direction has
7 been issued.

8 The purposes for which an investment reserve may be
9 used include construction of buildings, the acquisition
10 of new machinery and equipment, the purchase of inventory,
11 and the development of mineral deposits.

12 When an investment reserve is used for one of these
13 purposes with the permission of the appropriate government
14 agency, the amount so used is not restored to taxable
15 income. However, to the extent an asset or an expense has
16 been so charged to an investment reserve, it is not also
17 subject to depreciation or deduction. Since the amount in
18 the reserve has already been deducted from taxable income,
19 double deductions are thereby avoided.

20 As an inducement to the use of investment reserves,
21 however, there is an exception to this rule against
22 double deductions. A corporation using an investment
23 reserve with the permission of the Labor Market Board
24 receives a special additional "investment deduction"; it
25 may deduct from taxable income 10 per cent of the amount
26 of the reserve so used. If on the other hand, a reserve
27 is used without permission of the Labor Market Board, the
28 amount involved, plus a penalty sum equal to 10 per cent
29 of that amount must be added to taxable income.
30



There is one exception to the rule that an investment reserve may be used without penalty only with the permission of the government.

After five years from the time of an allocation to an investment reserve, the corporation may withdraw up to 30 per cent of that amount from the reserve, without government permission, for one of the uses authorized by the governing law. This 30 per cent amount, available for use without government permission, after five years, is known as the "free sector".

Both industry and the government appear agreed that during the world recession 1957-58 that the investment reserve provisions were successful, during the recession period and are serving a most useful purpose.

TABLE #8

SALES TAX, EXCISE DUTY AND EXCISE TAX COLLECTIONS * YEARS
ENDED MARCH 31, 1957-1961 - (MILLIONS OF DOLLARS)

	<u>Sales Tax 1</u>	<u>Excise Duty & Excise Tax All Products</u>	<u>Excise Duty & Excise Tax on Tobacco Products</u>
1957.....	764	542	252
1958.....	765	545	272
1959.....	753	546	288
1960.....	863	602	330
1961.....	856	619	342

We are suggesting that excise duty and excise tax on cigarettes, cigars and tobaccos be reduced by 10 per cent from present tax schedules immediately.

There appears no justification whatever for this unreasonably high tax. "The power to tax is the power

1/ Includes Old Age Security Tax
* Domestic Products only.



1 to destroy" said Chief Justice Marshall of the Supreme
2 Court of the U.S.A.

3 In 1961 excise duty and excise tax collections from
4 tobacco products amounted to 342 million dollars and the
5 total excise taxes from all commodities, together with
6 sales taxes \$1,475 million. (See chart #8.)

7 Tobacco growing farmers in Canada are becoming a
8 major group.

9 D.B.S. Canada Year Book - page 430 gives the following:

10	<u>Data</u>	<u>Acres</u>	<u>Total Production</u>	<u>Gross Farm Value</u>
11	1956	127,722	161,940,000 lbs.	\$72,059,000.00
	1957	136,787	164,865,000	78,589,000.00
12	1958	134,126	197,392,000	89,603,000.00
	1959	128,133	169,904,000	90,403,000.00
13	1960	135,962	214,167,000	114,699,000.00

14 During the past years smoking habits of Canadians
15 have changed. In 1922 the per capita consumption of
16 cigarettes was 229; by 1959 the annual per capita con-
17 sumption had increased to 1,739; in 1960 cigarette
18 consumption amounted to 1,925 per annum.

19 Printed reports from time to time endeavour to show
20 smoking as a health hazard. The reports re health or any
21 other reports published should have no bearing on taxing
22 facts.

23 We state again excise duty and excise tax on tobacco
24 products should be reduced immediately.

25 COMBINED EFFECT OF EXCISE TAXES AND EXCISE DUTIES ON
26 TOBACCO PRODUCTS

27 Bringing together the taxes imposed on tobacco
28 products under the Excise Tax Act and the duties imposed
29 under the Excise Act gives the following total taxes:-
30



- 1 Cigarettes.....\$9.00 per thousand (or 18 cents per pack
2 of 20 cigarettes) plus the 11-p.c.
3 sales tax on the manufacturer's
4 sale price.
5
6 Manufactured
7 tobacco..... \$1.15 per lb. plus the 11-p.c. sales
8 tax on the manufacturer's sale
9 price.
10
11 Cigars..... \$2.00 per thousand plus the 15-p.c.
12 special excise tax and the 11-p.c.
13 sales tax on the manufacturer's
14 sale price.
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GROSS NATIONAL PRODUCT

MILLIONS OF DOLLARS

1943.....	\$ 11,088
1945.....	11,835
1947.....	13,165
1949.....	16,343
1951.....	21,170
1953.....	25,020
1955.....	27,070
1957.....	31,909
1959.....	34,857
1960.....	36,000
1961.....	36,800
1962.....	40,100
1967.....	51,178 Estimated

LABOUR INCOME

1943.....	5,722
1945.....	6,154
1947.....	6,482
1949.....	8,115
1951.....	10,304
1953.....	12,419
1955.....	13,609
1957.....	16,000
1959.....	17,823
1961.....	19,068
1962.....	20,359
1967.....	24,769 Estimated



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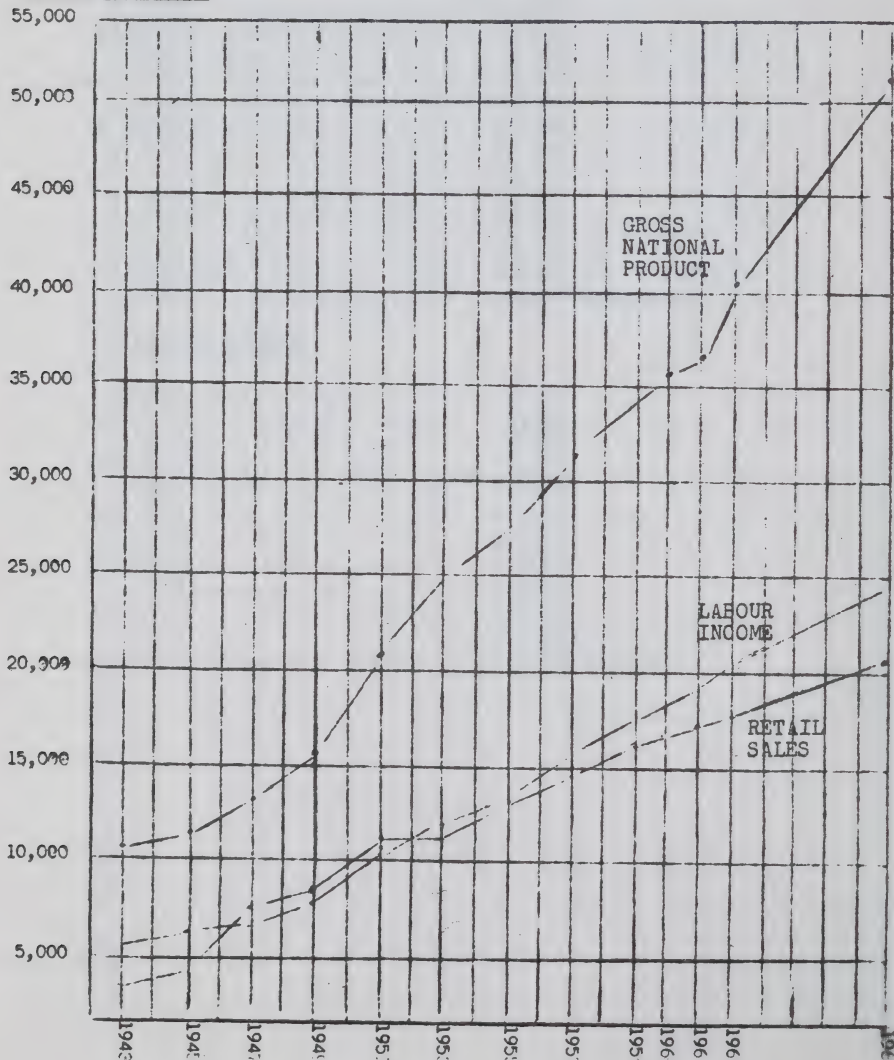
RETAIL SALES

1943	3,785
1945	4,573
1947	6,963
1949	8,531
1951	10,693
1953	12,128
1955	.....	13,111
1957	.....	14,826
1959	.....	16,283
1960	.....	16,502
1961	.....	16,663
1962	.....	17,457
1967	.....	21,239 Estimated.

TABLE #9

Gross National Product 1943 - 1962 and estimated in 1967
Labour Income 1943 - 1962 and estimated in 1967
Retail Sales 1943 - 1962 and estimated in 1967

Millions of Dollars





1 S U M M A R Y

2 In this fast changing world in which we live and
3 compete for our living every economic device that may be
4 used, should be given very careful study.

5 Adam Smith in his book Walth of Nations wrote, "A
6 man must always live by his work, and wages must at least
7 be sufficient to maintain him. They must upon most
8 occasions be somewhat more; otherwise it would be
9 impossible for him to bring up a family, and the race of
10 such workmen could not last beyond the first generation."
11 He stated fruther, "When in any country the demand for
12 those who live by wages, labourers, journeymen, servants
13 of every kind, is continually increasing, when every year
14 furnishes employment for a greater number than had been
15 employed the year before, the workmen have no occasion to
16 combine in order to raise their wages."

17 We recommend that taxpayers, in earning years be
18 allowed to set aside a larger share of their taxable
19 earnings by saving from tax deduction. Professor Hayek
20 in his "Book Maintainance of Capital" page 1935 has
21 suggested that an individual owner of capital goods might
22 aim at keeping the income he derives from his possessions
23 constant, so that he would not feel himself free to spend
24 his income on consumption until he had set aside suffici-
25 ent to offset any tendency of his investment income to
26 decline for whatever reason.

27 Henry C. Adams in his book - "A Good Revenue System"
28 wrote (1) "It must be adequate to the just wants of the
29 state" (2) "It must present itself as a system and not
30



1 an aggregation of independent and unrelated acts" (3) "It
2 should provide for elasticity of the revenue at the point
3 where elasticity is needed; that is, the revenue must be
4 capable of increase and decrease whenever and wherever
5 it is needed."

6 Professor H. M. Groves, University of Wisconsin in
7 his book "Postwar Taxation and Economic Progress" page
8 14 writes, "The economic system in its normal operation
9 should generate opportunities and incentives for enter-
10 prise." (2) "A system of bounties and penalties, politi-
11 cally chosen and imposed, is too liable to perversion
12 which can seriously impede the proper functioning of the
13 economy." (3) "It is extremely doubtful, to say the least
14 that business confidence can be fostered by "taxing
15 diffidence". (4) "Subsidies for some business are likely
16 to be at the expense of other business - a process result-
17 ing in much unfairness and no net gain in initiative."

18 Professor Groves (page 15) states "Morale is a large
19 factor in business motivation, and morale is supported
20 by a sense of fair play and stability in government
21 business relations. Shifting taxes from one group to
22 another often seems to be a clear gain for the first and
23 a clear loss for the second group." "Good will among the
24 various groups in society is necessary to the effective
25 functioning of economic organization."

26 We believe in the preceding statement of Prof.
27 Groves with respect to the taxing procedure that should
28 be uniformly adopted against all business, be they
29 private, corporation, co-operatives or crown corporation.
30



1 Frances Hutcheson (1694-1746) followed the teachings
2 of Aristotle believing that private ownership of the
3 fruits of labor was an incentive, and that mankind as a
4 whole would enjoy greater happiness.

5 Thomas Aquinas believed in the principle that by
6 guaranteeing to a man the fruits of his labor, he would
7 be more industrious and conscientious. (1)

8 John Stuart Mill believed "Wages depended upon
9 relationship which existed between the supply of
10 population and the capital available to employ workers."
11 (2)

12 Nassau Senior (3) he believed that land and labor
13 were the primary factors in production, but unless tools
14 were used to productive capacity of a people remained
15 on a low level.

16 In order to provide tools it was necessary to abstain
17 from present consumption (high taxes) in favor of using
18 the resources available to produce more commodities.

19 Capital was wealth produced by labor to be used in
20 the production of more wealth.

21 In motivating human action and labour, Adam Smith
22 emphasized the force of vanity. He said, "Men strive for
23 more than they need and for more than brings satisfaction."

24 We have quoted the above "economists of repute" to
25 show that men and women will "when given incentive"
26 produce more and in a satisfied economic climate.

27

- 28 (1) Basic Teachings of the Great Economists page 66
29 (2) Basic Teachings of the Great Economists page 76
30 (3) Basic Teachings of the Great Economists page 89-90



We have put forward argument showing the independent taxpayers, according to the statistics and tables attached, are paying a larger share of the income tax dollar than other factions in the economy.

Tax paying groups by income according to Table #3

from						
\$1,000 to \$	3,099	numbering	1,626,562	taxable	3,488.3	Millions
		taxpayers		income		of
3,099 to	4,999	"	1,707,598	"	6,784.4	Dollars
4,999 to	9,999	"	868,417	"	5,402.8	"
9,999 to	199,999	"	187,189	"	2,902.6	"
TOTALS			4,389,766		18,578.2	

From the table shown above it is readily noted the third group is paying much the higher tax by reason of the large amount of revenue, and the per centage of the grand total this group contributes is 7.39% - 5.83% - 7.81% - 4.89% and 3.16% of the total.

Our recommendation to reduce income tax schedules 7½% first year, 15% second year and 22½% third year would from the groupings above would benefit all the 4,389,766 taxpayers in 1963 and would substantially increase purchasing power, i.e., consumer goods and savings and the lower income tax returns to the government would flow back into government channels through increased Excise Taxes, more employment, lower costs to consumers, higher exports and higher standard of living.

We further commend our proposal to exempt from income tax for one full year all couples marrying in Canada.

This will have most beneficial effect to the young couples commencing home building, and particularly



1 to the young couples marrying in their final years at
2 University.

3 We also recommend the proposal to your commission,
4 allowing for a greater allowance into Registered tax
5 saving plans, that will allow for larger pension plans,
6 and will ultimately allow for earlier retirement from
7 the work force.

8 We recommend that your commission take a hard look
9 at our proposal, patterned after the Swedish Income Tax,
10 in which investment reserves for Economic Stabilization
11 are allowed. This plan if implemented would give business
12 an incentive to save and set up reserves during prosperous
13 periods and give men and women employment during recessions.
14 It will have a strong tendency to keep our economy level
15 without the deep recessions and plateaus.

16 We have suggested that some co-operation should
17 be considered by Provincial governments and the National
18 government relative to the imposition of direct consumer
19 sales taxes.

20 The end results on taxing would appear that con-
21 sumers in each province would pay to the taxing authority
22 almost level taxes.

23 However, the problem remains where one province
24 imposes a sales tax on its consumers and the Provincial
25 government in the adjoining province does not impose a
26 sales tax, the consumers along the borders are penalized
27 by tax and efforts are then made to secure merchandise
28 tax free.

29 We would suggest the Provinces and Federal Govern-
30 ment together agree to a uniform taxing basis for the



1 collection amounts necessary for the direct taxes now
2 collected and take the place of revenues now received.

3 The recommendations we have made are to avoid
4 recommendations that attempt to move progress by moving
5 tax burdens from one group to another, and we have attempted
6 to bring forward recommendations that will be to the ad-
7 vantage of all groups and all Canadians.

8 Forming a tax policy that is favorable to economic
9 progress has many complications and conflicts.

10 However, any policy that will give Canada high
11 employment and higher standards of living should be the
12 goal of all Canadians.

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The material for this Brief has been written and prepared
by R. E. Walker on behalf of Retail Merchants' Association
(Saskatchewan) Incorporated.



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TORONTO, ONTARIO

1 Presentation to Royal Commission on Taxation:

2 Regina, Sask. August 23rd, 1963. By Kenneth C. Pattison.

3 It is the purpose of this brief to deal only
4 with the structure of land and property assessment and
5 taxation as it affects farms and small urban centers.

6 In an article by Richard Cobb in the January
7 1953 issue of the Country Guide, Dr. Meyer Brownstone,
8 Deputy Minister of Municipal Affairs in Saskatchewan is
9 quoted as follows; "There needs to be wholesale reform
10 of land assessment, both rural and urban. The basic
11 approach to land productivity, essentially wheat, is no
12 longer appropriate. An attempt should be made to organ-
13 ize assessment regionally on the basis of land use; not
14 by quarter sections but by treating the farm as a whole.
15 This would entail virtually a yearly check on each farm,
16 rather than at the present ten year intervals.

17 "We would aim to make the tax rate progressive, which
18 would mean it would not be the same for the small unit
19 as for the larger one, not according to mill rate but on
20 assessment. At the same time grants to municipalities
21 would follow the principals of equalization."

22 This is one approach. Another is the proposal
23 made by Saskatchewan MLA Alec Cameron by which the mill
24 rate for school purposes would be equalized over the
25 province at say 30 to 35 mills.

26 Still another is the proposal by the Saskatchewan
27 Progressive Conservative party to eliminate municipal
28 school taxes entirely, the Provincial Government assuming
29 the entire cost of elementary and High school education.



1 These three approaches to the problem are of
2 interest in that they more or less indicate the trend of
3 thought of the present government and the two opposition
4 parties in Saskatchewan.

5 Many of the details of these proposals are vague
6 and it was with the idea of getting more information on
7 the subject that a study of taxation and assessment at
8 the municipal level was made.

9 This brief is a result of the study, as are the
10 conclusions outlined.

11 The basic principals of assessment in Saskatche-
12 wan are contained in two manuals, "The Saskatchewan Rural
13 Land Assessment System", and the "Saskatchewan Urban
14 Assessment Manual". It is obvious that in the scope of
15 this brief it is impossible to go into all the ramifi-
16 cations of assessment, particularly urban assessment.

17 Farm land is assessed on the basis of an index
18 indicative of the suitability of that particular soil
19 type for grain production, particularly wheat. All soils
20 in the arable portions of the province have been mapped
21 and classified and given a numerical index rating. This
22 was arrived at by taking into account three factors,
23 a. character of the soil profile (texture, structure and
24 native fertility), b. Topography. c. Modifying factors
25 of climate, salinity, degree of stoniness and tendency
26 toward erosion.

27 In order to correlate this rating with land
28 value, an economic survey was made in the Regina Plains
29 area. Taking a twenty year average of yields and prices,
30



1 and working out expenses and income for typical farm
2 management, they determined the net annual income of a
3 section of Regina Heavy Clay (RHvC). This capitalized
4 at 5% resulted in a value of \$32.00 per acre for the
5 land. This established a relationship between the index
6 and land value. By dividing the index for RHvC which is
7 32, into the value, \$32.00 per acre, a constant of .39
8 per point of index was established. This basic log
9 applied to any soil index in Saskatchewan gives a compara-
10 tive value of the soil in question which will bear a
11 correct relationship to the \$32.00 per acre for the RHvC
12 in the Regina area.

13 As certain economic factors enter the picture,
14 such as freight rates and machinery and fuel prices these
15 are taken care of by adjusting the soil index for the
16 factors concerned in the area under consideration.

17 In practice the soil type is established using
18 the #12 Soil Map as a guide, verifying the classification
19 by actual inspection. Acreage under cultivation, topo-
20 graphy and other features are checked. Discounts for
21 natural features as draws, ravines and sloughs etc. and
22 artificial features such as roads, railroads, drainage
23 ditches etc. are made, as well as allowance for variations
24 not considered natural for the rating of the soil. Dis-
25 counts for topography, stoniness, erosion, alkali, gravel
26 etc. are determined and a discount for distance from
27 market, at the rate of 1% per mile after the first 12
28 miles, and slightly less than 1% after that, is made

29 All this is recorded on a field sheet in a form
30



of shorthand, and copies are kept on file at the local municipal office at the University of Saskatchewan and at the Assessment Branch Office in Regina.

References.

Manual: The Saskatchewan Rural Land Assessment System.

#Address. Supt. of Rural Assessment, Regina, Mar. 12, 1959.

#Soil Survey Report #12.

#Soil Survey Maps, Soil Report #12.

References marked # are attached.

We have gone into this detail of method of Rural land assessment in order that comparison can be made with alternate forms of rural land assessment. In a report on Property Tax in other parts of Canada, in the January 31st, 1963 issue of the Family Herald comparison was made of various means of assessment for taxation purposes. It was indicated that in some areas taxes were levied on machinery and livestock and had the effect of preventing expansion of farm units into more economic units. It is obvious that in specialization often considerable capital outlay is necessary, either in herd expansion or for specialized buildings. Taxation on either livestock or plant would simply mean the enterprise would never get off the ground.

It appears that the chief criticism of the rural land assessment is that it is based on the productive capacity of the land for growing grain, particularly wheat. This may be true and it is also true that wheat



1 is still the greatest factor in western economy. If you
2 doubt this just pick up any western paper and read the
3 headlines. With specialization on the increase it is
4 quite true that there are times when the assessment does
5 not take into consideration income produced from milk,
6 beef cattle and other forms of specialization.

7 I would point out however that at present
8 Western agriculture is in a fluid and transitional state,
9 especially in the parkland area with its higher yields
10 and greater rainfall. It is this area where the so-called
11 family farm has predominated and it would be this type of
12 farm which would be hardest hit if methods of assessment
13 were altered, especially if, as suggested in some quarters
14 farm buildings were assessed and taxed.

15 In the municipal field it would appear that the
16 present method of assessment and taxation is working
17 fairly well. You get what you pay for in the shape of
18 municipal services and the basis of assessment is rela-
19 tively stable, and important factor in budgeting. The
20 experiences of other parts of Canada where other methods
21 using buildings, livestock and machinery as the basis of
22 assessment is not such that it would suggest this type of
23 assessment would solve anything.

24 There seems to be considerable confusion regard-
25 ing mill-rate and assessment. If we would just realize
26 that the terms themselves are meaningless unless used
27 correlatively. We get one dollar in taxes when we have a
28 mill rate of 1 mill on an assessment of \$1000. or 5 mills
29 on an assessment of \$200. or 1000 mills on an assessment
30



1 of \$1.00.

2 This simple fact of inverse ratio is often over-
3 looked, and is the method by which we can equalize the
4 amount of tax dollars resulting from two different basis
5 of assessments.

6 URBAN assessment is necessarily based on a
7 different approach to values and is vastly more compli-
8 cated than rural land assessment. It provides an
9 equitable form of assessment in its field and if we
10 realize that it is different and based on different values
11 than rural assessment it can be equalized as far as tax
12 revenue is concerned by adjusting the mill rate, as
13 noted above.

14 Now when we have an area wholly within either
15 an urban or rural municipality we have no problem of
16 equity. We need so much money and adjust the mill rate
17 to give the required amount on the available assessment.
18 It is when we have to set a mill rate on assessments
19 based on different values that we run into trouble.

20 This brings us to the question of education costs
21 and School taxes.

22 It is obvious that municipal taxes can be
23 controlled to some extent by curtailing or expanding
24 public works, but costs of education are fixed and tend
25 to increase due to salary increments.

26 We do not propose to deal with this subject
27 except to discuss difficulties arising from different
28 assessment values.

29 Where a school district is wholly within either
30



1 an urban or rural municipality this difficulty does not
2 exist. It is where a school district is divided between
3 an urban and rural area that we run into trouble.
4 Attached is a schedule of mill rates for school districts
5 outside the larger units. You will note the differential
6 between urban and rural millrates for the same school
7 district run all the way from $13\frac{1}{2}$ mills to 1 mill.

8 Incidentally the same differentials exist in
9 larger school units established. The trouble stems from
10 the fact we have two assessments using different values
11 as a basis of assessment. Many school boards feel a
12 differential of two mills is adequate but it results in
13 grave inequities in taxation.

14 For instance in the Balcarres area much of the
15 land is assessed at \$4000. per quarter section. This
16 means that with a rural mill rate of 35 mills a farmer
17 having a half section of land would pay \$280. in school
18 taxes alone. If he has 300 acres under cultivation,
19 which is about the maximum, he can sell 2400 bushels of
20 wheat on a 7 bushel quota, including the unit of 300
21 bushels.

22 It is obvious that no business in the town with
23 a comparable income would pay this amount.

24 Until we base our mill rate on the actual dollars
25 required can we arrive at anything resembling equity.

26 This can be done by breaking down the tax
27 structure where we have two different levels of assess-
28 ment into dollars required and adjusting the mill rate so
29 each basis of assessment pays an equitable amount. And
30



1 all the tampering with assessments in the world is not
2 going to change this basic principle.

3 There is one other problem in education costs.
4 In the course of the study it became quite clear that
5 there is one segment of the economy which is definitely
6 not paying its share of the costs of education. These
7 are the professional and semi-professional classes who
8 ironically have the largest income. Granted that they
9 pay heavy income tax, but so does anyone else who has an
10 equal income. Under our present set-up income taxes are
11 not used for costs of education, except indirectly.

12 Thirty years ago small town salary schedules
13 were on the \$150. to \$250. a month level, or \$1800.-\$3000.
14 per year. Now it is not uncommon to find professional
15 income from \$7000. to \$15000. a year in small towns. A
16 school principal can get from \$6000. to \$8000.; teachers
17 \$4000. to \$6000. Other salary brackets range from \$4000.
18 to \$6000. yearly. If they own property, and many do not,
19 the tax paid for school purposes on a house assessed at
20 \$3000. at 27 mills (the current rate in Lemberg) would be
21 \$51. The only way a non property owner can pay taxes is
22 through rent and a house renting at \$30 to \$50 a month
23 will not be assessed too highly. One boarding out would
24 contribute still less. Compare this to a half section
25 assessed at around \$7000. with a mill rate of 25 mills
26 which pays \$175.00 and an income based (in grain farming)
27 on around 2400 bushels of wheat sold.

28 There would appear to be one logical solution to
29 the problems discussed.



1 It would be to make a special levy on income for
2 costs of education.

3 This could be a percentage added to present tax
4 levels. It would fulfill the "ability to pay" require-
5 ment. It would automatically take care of the segment of
6 the economy who under present conditions contribute little
7 or nothing to costs of education.

8 In the field of rural taxation it would avoid
9 crippling taxation on expanding operations until they
10 began to pay off. It would avoid the army of assessors
11 envisaged in Dr. Meyer Brownstone's proposal. In fact
12 the only criticism I have heard was a comment that it was
13 "too simple".

14 It is obvious that we have reached the limit in
15 property taxation. While giving a stable base for revenue
16 it is inflexible.

17 In rural taxation regardless of whether you
18 harvest one bushel or five thousand your taxes remain the
19 same. With the increase in land taxes over the past 30
20 years it has come to the point where a farmer facing the
21 loss of two successive crops is in most cases out of
22 business.

23 I would suggest in conclusion that before
24 scrapping the assessment methods we now have that we take
25 a very long close look at the alternatives suggested.
26 We have seen in recent years that proposals which looked
27 wonderful on paper had side effects never envisaged and
28 proved inoperable in practice.

29 I do not expect that the suggestions embodied
30



1 will solve all the problems we are beset with but at
2 least they are simple and can be administered with
3 existing organizational set-ups.

4 The problem is simplified now that the Provinces
5 are back in the income tax field. The additional revenue
6 collected would enable property taxes to be reduced to a
7 more realistic level.

8
9 Lemberg, Sask.

10 July 15th, 1963

Kenneth C. Paterson.

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1 ment to which he ordinarily reports for work was located".
2 Webster's Dictionary defines the word "ordinarily" as
3 "usually, generally, as a rule". The elevator construc-
4 tion and repair workers may work one day at Buffalo Gap,
5 the next day at Big Beaver, the next four days at Yellow
6 Grass and the next two weeks at Spring Valley. In fact,
7 having completed one day's work at Big Beaver they may
8 not return to that place in the next two or three years.
9 Nevertheless, the Department maintains that Big Beaver is
10 the establishment to which these workers report for work,
11 "usually" or "generally" or "as a rule". A fact that, on
12 the face of it, is not correct.

13 The Department has also ruled that the non-
14 allowance re. claim for meals that applies to the construc-
15 tion and repair workers does not apply to their foreman.
16 Therefore we have a rather peculiar and almost comical sit-
17 uation. A foreman and one of his workers living next
18 door to each other may be sent by the Company to repair
19 an elevator one hundred miles away. While on this assign-
20 ment, the foreman's expenditures for meals are deductible
21 from his taxable income while his helper, working under
22 the same circumstances but for a lower income, has no
23 such privilege. Both employees ordinarily report to the
24 same place or places of work, therefore, the location of
25 the employer's establishment is determined differently
26 for one type or class of employee than for another.

27 Respectfully submitted on behalf of the Saskat-
28 chewan Wheat Pool Employees' Association, with the support
29 of the Saskatchewan Wheat Pool.

30 Aug. 20, 1963.

G. A. Mills,
Secretary-Manager.



1 ance with the provisions of subsection 9, of Section 11 of
2 the Income Tax Act, from 1951 to 1961 these employees
3 were allowed to claim as a deduction from income the amount
4 expended for meals during the period they were required
5 to move to different places in the course of their employ-
6 ment. Since 1961 these workers have not been allowed to
7 claim expenditures for meals as an expense deductible from
8 income.

9 The Department of National Revenue - Taxation
10 Division base this recent ruling (see their Interpretation
11 Manual) upon Section 11(9)(a) of the Act, holding that
12 the work site at which they are engaged is the establish-
13 ment where they report for work and therefore they would
14 not be away from the employer's establishment to which
15 he ordinarily reports for work.

16 We do not dispute the legality of the interpre-
17 tation placed on Section 11(9)(a) of the Act by the legal
18 authorities that have no doubt given the wording very
19 close and careful scrutiny and consideration. However,
20 certain very obvious doubts and questions present them-
21 selves to us.

22 This Section of the Act upon which the Depart-
23 ment of National Revenue has based their decision was
24 added in 1954. It would appear somewhat peculiar that
25 it was seven years later before its wording was so inter-
26 pretated as to result in a complete reversal in the legal
27 opinion of the Department.

28 We would also draw to your attention that their
29 refusal to consider claims for meal expenses is based
30 entirely upon the words, "where the employer's establish-



1 required to do in carrying out the duties of his employ-
2 ment.

3 Their rates of pay are established at an hourly
4 rate with an additional allowance of \$1.00 per day to
5 partly cover the cost of living when away from home.
6 Some of these men are employed all the year round, others
7 normally are steadily employed for nine or ten months of
8 the year and are laid off for a few months in the winter
9 due to severe weather conditions or lack of work.

10 We describe these working conditions to esta-
11 blish the fact that these men are not casual workers
12 hired temporarily at certain locations, but are permanent
13 employees hired (under the terms of the agreement) at the
14 Company's place of business at their Head Office to move
15 to different places in the Province to carry out their
16 ordinary duties of constructing and repairing the Com-
17 pany's facilities. Being required, in pursuit of their
18 employment, to work in different places, they do incur
19 travelling expenses in the nature of board. These ex-
20 penses, as we have stated, to the amount of \$1.00 per diem
21 are paid by the Company. The balance of these expenses
22 are paid by the employee himself.

23 Application of the Income Tax Act and the
24 Rulings and Interpretations of the Act in Regard to these
25 Expenses:

26 Since 1961, the \$1.00 per diem allowance men-
27 tioned in the preceeding paragraph is not an allowable
28 taxable deduction and is included in the employees in-
29 come. Additional expenses for meals paid by the employee
30 are also not allowed as deductible expenses. In accord-



1 We also conclude that the emphasizing of this
2 particular Section of the Act (Section 11(9)(a) contra-
3 dicts or completely nullifies Section 5(2)(a) as it con-
4 cerns our construction and repair workers, and which we
5 presume was written into the Act to be applied explicitly
6 to construction workers, for this Section reads in
7 part:-

8 "(2) Construction Workers. Notwithstanding
9 subsection (1) in computing the income of a
10 taxpayer for a taxation year from an office
11 or employment, where the taxpayer was, during
12 the year, employed as a construction worker,
13 there shall not be included

14 (a) the value of, or an allowance (not
15 in excess of a reasonable amount)
16 in respect of expenses incurred by
17 him for board and lodging received
18 by him."

19 (c) If it is granted that the interpretation
20 of the Act by the Department of National Revenue - Tax-
21 ation Division is legally correct, then we must indeed
22 conclude that this group of workers, denied the right to
23 claim their meager and necessary meal expenses as a tax-
24 able deduction, is being discriminated against in com-
25 parison with other larger or more influential groups who
26 are allowed generous expense deductions, and this legal
27 exercise in semantics results in imposing an added weight
28 upon low income employees in comparison with the expense
29 allowances granted to higher classifications of employees.

30 (d) That through the unreasonable definitions



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1 placed upon certain words which have created the stated
2 absurdities, the will and intention of the framers of
3 the Act and the Parliament of Canada has been circum-
4 vented.

5 (e) We are of the opinion that the anomalies
6 hereinafter stated are, to a considerable extent, due to
7 the existing system whereby the formulation of tax policy
8 is the responsibility of the Finance Department, the
9 Department of Justice drafts the tax laws, and the Depart-
10 ment of National Revenue administrates the law.

11 In support of the above recommendations, we
12 submit the following facts.

13 Facts

14 Conditions of Work These men engaged in the
15 construction and repair of country grain elevators, annexes
16 and cottages are employed by the Saskatchewan Wheat Pool
17 with Head Office in the City of Regina, Province of
18 Saskatchewan, under the terms of an agreement between the
19 Saskatchewan Wheat Pool (the Company) and the Saskatchewan
20 Wheat Pool Employees' Association (their certified bar-
21 gaining agent).

22 This agreement provides among other rights and
23 benefits for these employees, a Group Life Insurance plan,
24 a Retirement plan, Sick Leave, Seniority Rights including
25 seniority as to the right of recall after a lay-off,
26 Leave of Absence, Vacations, Holidays, payments in the
27 event of temporary lay-offs, travelling time and trans-
28 portation allowances when required to move away from his
29 employer's place of business OR to different places (see
30 Section 11(9) of the Income Tax Act) as he is ordinarily



1 reported for work was located", and substituting the
2 words, "he maintained a self-contained domestic establish-
3 ment in which he resided and actually supported a spouse
4 or a person dependent upon him for support and connected
5 with him by blood relationship, marriage or adoption".

6 OR:

7 (2) That other provision be made in the Act
8 to provide that the employees referred to above be allowed
9 to claim amounts expended in respect of meals consumed
10 while absent from their ordinary place of residence;
11 similar to the allowances now granted to employees of a
12 transportation company, or salesmen on commission basis,
13 or numerous other categories of employment.

14 (3) We also support the recommendations of the
15 Vancouver Board of Trade that tax laws should be formula-
16 ted and implemented by the same agency.

17 The above recommendations are submitted due to
18 the following conclusions drawn from the facts hereinafter
19 stated.

20 Conclusions

21 (a) The facts clearly show that the expenses
22 for meals incurred by these employees is a necessary and
23 legitimate expense.

24 (b) The Department of National Revenue -
25 Taxation Division's application of the word "ordinarily"
26 in Section 11(9)(a) appears to go beyond a reasonable
27 interpretation and beyond the intention of the framers
28 of the Section. Had the framers of the Section intended
29 such an interpretation to be placed upon it, they surely
30 would have used the plural of the word "establishment".



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1 TO THE ROYAL COMMISSION ON TAXATION

2 A Submission by the Saskatchewan Wheat Pool Employees'
3 Association on behalf of the Employees of the Saskatchewan
4 Wheat Pool engaged in the Construction and Repair of
5 Country Grain Elevators, annexes and cottages, and made
6 with the full knowledge and support of the employer,
7 the Saskatchewan Wheat Pool.

8
9 Summary

10 The Saskatchewan Wheat Pool Employees' Associa-
11 tion is the certified bargaining agent for the employees
12 of the Saskatchewan Wheat Pool, at the present time num-
13 bering approximately two hundred men, engaged in the con-
14 struction and repair of country grain elevators, annexes
15 and cottages owned by the Saskatchewan Wheat Pool.

16 Reason for the Submission

17 The value of, or allowances in respect of ex-
18 penses, incurred by these employees in the pursuit of
19 their employment, for board or received by them for board
20 are included in computing their taxable income.

21 It is our contention that the expenses for meals
22 incurred by these employees is a necessary and legitimate
23 expense in the carrying out of the requirements of their
24 employment and if paid by the employer, should not be
25 considered as income; and if paid by the employee, should
26 be a deductible item of expense.

27 Recommendations

28 (1) That Section 11(9)(a) of the Income Tax
29 Act be amended by deleting, after the word "where", the
30 words, "the employer's establishment to which he ordinarily



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1 Companies should be encouraged to export, by
2 allowing a lower tax rate on income from exports.

3 Sincerely,

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5 J. M. Reid
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1421 Wascana Street,
Regina, Saskatchewan.

3 Carter Commission On Taxation

4 Dear Sirs:

5 Canada needs more investment capital to increase
6 job opportunities. If Canadians increased their investing
7 by a hundred dollars per taxpayer per year, it would mean
8 an increase of eight hundred million dollars of additional
9 new investment capital per year. If a percentage of the
10 increase in investment over the previous year, were deduct-
11 ible from income tax, it would be an incentive to invest.

12 Since a large number of Canadians are of
13 average or low income, the incentives should be aimed at
14 them.

15 Example

16 \$10 deductible from the first \$100 invested

17 \$ 8 " " " second " "

18 \$ 6 " " " third " "

19 \$ 4 " " " fourth " "

20 \$ 2 " " " fifth " "

21 1% deductible on all further investments.

22 Naturally taxes would have to be raised to allow
23 for the deductions.

24 Companies should be allowed to a deduction for
25 each man year increase of employment.

26 Companies who employ for example ten men per
27 each \$10,000 profit should be taxed at a higher rate than
28 companies who employ twenty men per \$10,000 profit.

29

30



HOTELS ASSOCIATION OF SASKATCHEWAN

submission to

CARTER ROYAL COMMISSION ON TAXATION

August 23, 1963

1. The Hotels Association of Saskatchewan whose offices are located at 404 Guaranty Trust Building, Regina, Saskatchewan, respectfully submits this brief to the Carter Royal Commission on Taxation.

2. The Hotels Association of Saskatchewan represents 518 hotels in the province and includes all licensed hotels. Membership in the Association is purely voluntary and the work of the Association is almost entirely devoted to the continuing improvement of public service and to the general welfare of the hotel industry. For example, all new owners of licensed hotels are required to attend a workshop at which various phases of hotel management and government regulations pertaining to hotels are discussed.

3. In recent years, the hotels of this province have become seriously concerned with the tremendous growth in what may be termed unfair competition from organizations which have tax exemption privileges or concessions. These exemptions fall within the dominion, provincial, and/or the municipal tax field.

4. The Hotels Association of Saskatchewan suggests that the greatest sources of unfair competition comes from such tax-exempt operations as:

1. Certain Private, Fraternal, and Sporting Clubs.



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SUMMARY

of submission to

CARTER ROYAL COMMISSION ON TAXATION

HOTELS ASSOCIATION OF SASKATCHEWAN

AUGUST 23, 1963

The Hotels Association of Saskatchewan feels that the present tax-exemption privileges are too great in scope, and that many groups who were once qualified for tax-exemption no longer are, by virtue of the fact they are carrying on commercial activities in direct competition with tax-paying hotels. A large amount of tax revenue is being lost by the diversion of business away from tax-paying hotels into tax-exempt premises. Also, if this business which is being diverted was handled by the hotels, they would undoubtedly have to engage more staff, which in turn would increase tax revenues by reason of there being more people gainfully employed.

It is recommended that each taxing body require all tax-exempt organizations to submit to them annual audited financial statements showing full details of sources of revenue, disposition of revenue, assets held and surpluses accumulated. These statements should be reviewed yearly, and tax exemption be granted on a yearly basis where warranted. However, in no case where an organization is engaging in commercial activities should tax exemption be granted.



1 2. Certain specified Veterans Clubs.

2 3. YMCA and YWCA rentals and catering.

3 4. Church hall rentals and catering.

4 5. It is felt that there is unfair competition

5 because many of the groups referred to above are serving

6 the public in the fields of hall or room rentals, food

7 catering, and beer and liquor sales, in direct competition

8 with the hotels which have to pay business, property and

9 income taxes, as well as any necessary license fees.

10 6. The catering to events such as conventions is

11 literally moving out of tax-paying premises and into

12 tax-exempt premises, as the latter mentioned are in a

13 position to offer lower rates by virtue of their tax-

14 exempt privileges.

15 7. Many of these organizations are in fact carrying

16 on a business, the profits of which are used to expand

17 their facilities resulting in ever-increasing unfair

18 competition to the hotels which do not enjoy any tax-

19 exemption privileges.

20 8. It is suggested that the taxing authorities are

21 losing an ever-increasing amount of revenue by not taxing

22 these organizations on the portion of their incomes

23 derived from a purely business operation. It also follows

24 that if this revenue was accruing to the hotels it would

25 be subject to income tax in their hands.

26 9. It is submitted that the decreased volume of

27 business being done by the hotels has a great bearing on

28 the employment situation. Many tax-exempt organizations

29 use voluntary workers or part-time employees. It is felt

30



1 that if the business now being done by tax-exempt organi-
2 zations were handled by the tax paying hotels, which are
3 subject to all labour and wage regulations, it would
4 increase the number of full-time gainfully employed per-
5 sons. This would result in greater revenue from personal
6 income tax and would also increase the numbers contribu-
7 ting to the Unemployment Insurance Fund.

8 10. Organizations are granted these subsidies by way
9 of tax exemptions on the assumption that they are organ-
10 ized for a specific purpose, and will not be engaging in
11 commercial activities. It is suggested that the time has
12 long since passed when some of these organizations should
13 be tax-exempt by virtue of dominion or provincial statute,
14 or by municipal by-law, and that the equitable way to
15 judge whether they are entitled to tax exemption or not,
16 would be to have each taxing body require these organi-
17 zations to submit to them annual audited financial state-
18 ments showing full details of sources of revenue, dis-
19 position of revenue, assets held and surpluses accumulated.
20 It is our contention that these statements should be
21 reviewed yearly, and tax exemptions be granted on a
22 yearly basis where warranted.

23 11. While these tax-exempt organizations are assumed
24 to be non-profit making, there is no doubt that the
25 members are receiving dividends in effect by way of
26 improved and enlarged facilities or reduced fees. If
27 these improvements were being made out of monies received
28 from membership fees or investment income the question of
29 removing their tax exemption would not arise, but once
30



1 they become engaged in business activities in direct
2 competition with tax-paying businesses, their exemption
3 should cease.

4 12. It is also recommended that all advertising or
5 solicitation by such tax-exempt organizations be
6 restricted by regulation to soliciting patronage from
7 members only.

8 13. Regulations are now in effect in the United
9 States governing tax-exempt organizations in the catering
10 and public lodging fields. Generally speaking, Veterans
11 Clubs, Country Clubs, Fraternal Groups and Lodges, etc.,
12 lose their tax exempt privileges and are now subject to
13 Federal Income Tax where these organizations serve meals
14 or beverages, or provide lodging regularly for persons
15 other than their own members. Also, where such organi-
16 zations solicit or advertise for public patronage, it is
17 prima facie evidence that they have forfeited their tax-
18 exempt status. The regulations also require these
19 organizations to keep their books and records open for
20 inspection by Internal Revenue officers at any time they
21 may be called upon.

22 14. In conclusion, the Hotels Association of
23 Saskatchewan wishes it clearly understood that their
24 members are quite prepared to meet competition and do
25 not wish any of these organizations to be deprived of the
26 privilege of serving their members, but feel it is only
27 fair and just that their competitors be subject to the
28 same taxes and regulations where they are carrying on
29 an active business in direct competition with the tax



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1 paying hotels.

2 All of which is respectfully submitted.

3 J. R. Freestone

4 President and Managing Director.

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APPENDIX

to submission by

HOTELS ASSOCIATION OF SASKATCHEWAN

to

CARTER ROYAL COMMISSION ON TAXATION

AUGUST 23, 1963

The following are the statutes under which
tax exemptions are being granted

Dominion	-	Income Tax Act	-	Section 62
Provincial	-	Saskatchewan		
		Income Tax Act	-	Section 6
Provincial	-	Saskatchewan		
		City Act	-	Section 480
Provincial	-	Saskatchewan		
		Town Act	-	Section 458
Provincial	-	Village Act	-	Section 319

